

INVOCARE LIMITED

CONSUMER SERVICES

STUDENT: DIOGO COSTA & DIOGO OLIVEIRA

COMPANY REPORT

4 JANUARY 2021

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A New Funeral Industry

A look into InvoCare Limited

- The pandemic led to the implementation of strong distancing measures that affected tremendously the service and event industry. As a result, turnover is expected to **decrease by 2,86%** in 2020 and recover afterward being **A\$779,9 M in 2030**.
- Pre-Paid contracts have been a key revenue driver for InvoCare as it enables capital to be invested on well diversify portfolios. Historically, it has sold, yearly, **A\$39 M** worth and achieved an **average return of 9,39%** on the AUM.
- The increased awareness regarding the worlds' sustainability has led to the change of customer preferences as they look for products that meet ESG's principles. To address the new demand dynamics, **green burial**, have been introduced to InvoCare's product range.
- As of November 2020, the acquisition of the two largest pet cremation companies has been finalized. Through the incorporation of these operations, InvoCare's **pet cremation volume will increase to 66.000 in 2021**, which translates into **A\$19,3 M of additional revenue**.
- Based upon a DCF model with a forecast period of 10-years, InvoCare's **target share price for 2021 is A\$12,95** yielding a 16,71% shareholder return considering a A\$0,41 dividend. A BUY recommendation is issued.

Company description

InvoCare Limited is an Australia based company operating 290 funeral homes and 17 cemeteries & crematoria across three geographies. Is recognized for being the market leader in Asia-Pacific and for the bespoke funeral and memorialization service it provides via its national and regional brands.

Recommendation: **BUY**

Vs Previous Recommendation -

Price Target FY21: **A\$12,95**

Vs Previous Price Target -

Price (as of 4-Jan-21) **A\$11,45**

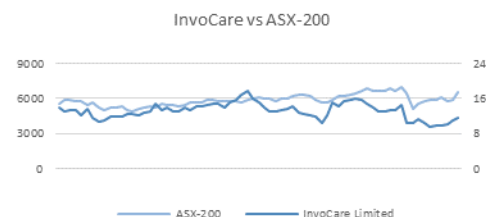
Reuters: IVC.AX, Bloomberg: IVC: ASE

52-week range (A\$) 9,07-15,79

Market Cap (A\$ m) 1.649B

Outstanding Shares (m) 143.534M

Source: Company data, Bloomberg



Source: Yahoo Finance

(Values in A\$ millions)	2019	2020E	2021F
Revenues	494.6	408.5	510.6
EBITDA	131.3	101.4	117.9
Gross Margin	26,55%	21,10%	23,10%
EBIT	115.4	15.5	90.7
EBIT margin	23.4%	3,2%	17,8%
Net Profit	62.0	-4.4	49.6
Dividends/Share (A\$cents)	0,41	0,24	0,41

Source: Company data, Analyst estimates

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Executive Summary

The rising environmental and ecological concerns felt across the world's communities have, alongside a rapid change of consumer preferences and product expectations, been transforming the core of the funeral service industry. The ESG awareness led to the introduction of new memorialization formats, like the green burial, which gained traction among clients looking to leave a positive contribution and legacy. Additionally, the increased use and technology dependency made it indispensable and a differentiating factor when choosing the funeral provider. As a result, the digitalization process of funeral homes has intensified in the last years in order to incorporate the new market trends.

Moreover, the idea that a funeral must be a place to mourn the deceased has become outdated being substituted by a service that allows the celebration, festively, of the deceased's life. As individuals want to control the final stage of their lives and lift the financial burden from their relatives, they started to acquire pre-paid contracts and planning their funerals.

Since 2015, InvoCare's case volume has grown at a CAGR of 2,16% and has, simultaneously, provided more than 173.000 funerals across Australia, New Zealand, and Singapore. The ability to generate such significant growth, for an already mature industry, is being driven by an inorganic investment strategy, having done 25+ acquisitions since inception. Due to new demographic dynamics, Baby Boomers, and the 90's generation, InvoCare has reorganized its expansion strategy increasing its activity across Australia's regional areas.

InvoCare is expected to consolidate its position as the market leader across the three geographies as it already started to incorporate the new market trends within its business model. Group's revenues are projected to grow at a CAGR of 4,58%, while operating expenses will grow at a CAGR of 3,59%, translating into an EBITDA margin gain of 1,21%. For the before mention reasons, we forecast a share price of A\$12,95 for December 2021, yielding a total shareholder return of 16,71% from the current InvoCare's share price of A\$11,45 and an expected dividend of A\$0,41 per share.

Company Overview

Company History



Figure1. InvoCare's Premium Brand
Source: Company Website



Figure2. InvoCare's Affordable Brand
Source: Company Website



Figure3. InvoCare's Cremation National Brand
Source: Company Website

InvoCare Limited, the biggest funeral provider in Australia, is a recent player within the industry when compared to other small family-operated establishments, who have been servicing the Australian population for more than a century. In 2001, Service Corporation International, an American funeral provider, sold 80% of its Australian infrastructure to Macquarie Bank as part of its divestment strategy. After its IPO, in 2003, InvoCare Limited was established and an internationalization process occurred namely by expanding into New Zealand and Singapore. Simultaneously, in 2018, they entered a new adjacent business segment, pet cremations, in New South Wales.

The deployed expansion process and market penetration strategy are being supported through a continuous M&A activity and by leveraging its national and regional brands. As of today, it is seen as one of the few end-to-end operators in the Asia-Pacific market, being considered the geography market leader. Operates across the three funeral business segments, Pre-Paid Contracts, Funeral Homes having 290 locations, and Memorial Parks with 17 cemeteries & crematories which gives it a complete and extensive market coverage. As of 2019, Australia generated A\$417.66 M in revenue while, New Zealand's and Singapore's contribution was of A\$56.1 M and A\$20.82 M, respectively.

Shareholder Structure

The shareholder structure has remained unchanged since the IPO, and, as of December 2019, there are 117.185 million ordinary shares outstanding being a stake equivalent to 53,9% held by a group of 40 shareholders, composed mainly of Investment banks and Nominee trusts. The latter represents almost 90% of the group and by itself services thousands of small investors. The trust allows them to participate in the stock market with more attractive conditions, lower transactional costs as the aggregate volume is higher.

In 2020, as a response to the COVID-19 pandemic, an Institutional Placement and Share Purchase Plan was performed raising A\$270.912 M with the issuance of 26.349 million ordinary shares. The capital was raised from existing shareholders and will be used to enable its growth strategy and reduce short term borrowings, minimizing the probability of financial distress that may arise due to the pandemic.

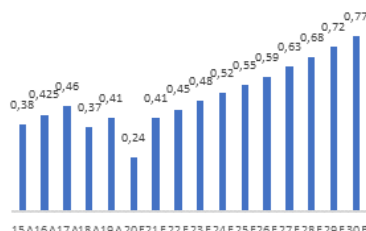


Figure4. Dividends evolution. From 2022 to 2026 +A\$0.035 and from 2027 to 2030 +A\$0.045.
Source: Company Data, Analyst estimates

InvoCare's high payout ratio benchmark (75%) has been constantly surpassed during the last 5 years as it distributed 82% of its earnings. The payout is projected to increase in line with the growth of the industry and InvoCare's market dominance, both in the regional and metropolitan market being, on average, 92%, until 2030. Thus, making the stock attractive to investors looking for passive income. The consensus is that the core shareholder base will remain unchanged, being composed mainly of Australian nominees.

Macro Overview

To better understand the sector, and hence the company, we first need to understand the Australian, New Zealand, and Singaporean economies. We will consider demographics indicators and upcoming trends such as historic population growth, death rate, GDP evolution, and disposable income, being these key drivers of our analysis.

Australia

After World War II, immigration policies and a higher fertility rate boosted the growth of the Australian population. Since 2001, overseas migration has contributed to 55% of the population evolution as the before mentioned drivers started to decline, hindering the growth.

Since the 1990s, the population has grown by more than 1% YoY, surpassing the 2% mark in 2008 and 2009. For the upcoming 10 years, according to the Australian Bureau of Statistics (ABS), the Australian population will grow at a CAGR below 2%, reaching the 30 million barrier in 2029. Additionally, in line with historical data and ABS outlook, migrations are projected to intensify as Australia's anticipated fast economic recovery will most likely attract foreigners looking for better living conditions and opportunities. By 2066, net overseas migration will be responsible for a cumulative population increase between 9 to 13.5 million.

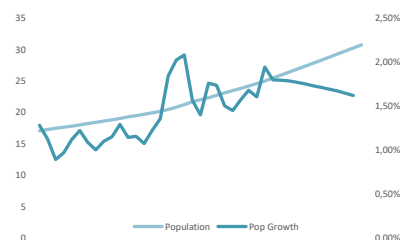


Figure 5. Australian Population in Millions (1990-2030)
Source: Australian Bureau of Statistics

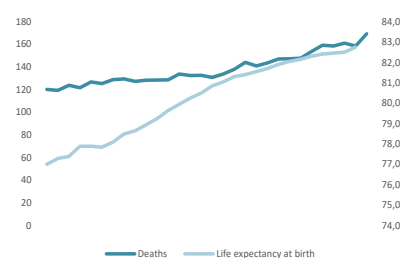


Figure 6. Australian Deaths (in thousands) & Life expectancy at birth (1990-2019)
Source: Australian Bureau of Statistics and World Bank

Two other main drivers of the industry are the number of deaths and life expectancy at birth. According to the ABS, the number of deaths has been steadily increasing since 1990, reaching almost 170,000 deaths in 2019. The upward trend is expected to continue and even get steeper, as "baby boomers" aged between 56 and 74 years old and are reaching the life expectancy age. Furthermore, as reported by the ABS, deaths' CAGR is expected to be 2,3% for the next 10 years, 2% until 2050, stabilizing at 1% afterward. To corroborate ABS's projections, a study performed by McCrindle showed that during the last 30 years, the population median age rose 5,3 years to 37,4 in 2019. The upward

trend will remain as in 2044 the median age is projected to be 40 years. This is in line with the expected evolution of the population structure and life expectancy at birth.

As mentioned, the population structure reflects an aging Australia as the younger demographics have, over time, been substituted by the older generations. In 1980, people aged up to 14 years old and over 80 years old represented 25,25% and 1,67% of the population, respectively. By 2016 the first group only accounted for 18,9%, while the second saw its contribution rose to 3,88%. In fact, the population aged above 65, will represent in 2066 more than 27% of the Australian population, a 940-bps increase from 2017.

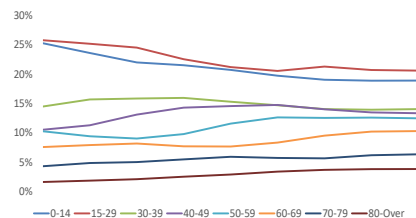


Figure7. Australian Population Structure Evolution (in %) (1980-2016)
 Source: Australian Bureau of Statistics

Due to improved health services, safer working environments, and constant medical and technological advances, it is getting harder for science to constantly improve life expectancy at birth over time. As a result, the curve has been getting flattened, with 2018 hitting a record of 82,7 years, compared with 77 years in 1990.

Another relevant statistic for the Australian population is that people that live in areas further from the city center tend to die at a younger age. The median age at death is 85 for women and 79 for men in major cities and decreases as we move to more remote areas, with the median being 69 years for women and 68 for men in very remote areas. As they live far from city centers, where most of the hospitals and the cutting-edge technologies are, they have poorer access to health services, which translates into a higher potential to develop diseases.

If we consider the Australian economy, one can see that over the last 30 years GDP has been growing, with only some downturns in recent years, and a cumulative growth of more than 300%. If instead, we consider the household disposable income, we can see that it has grown over the three decades, with highs of more than 7% and never recording a deficit.

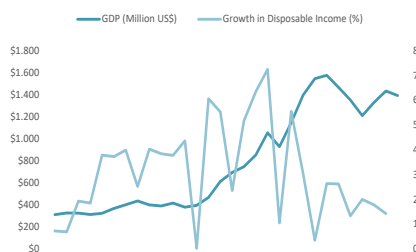


Figure8. Australian GDP and Disposable Income Growth (1990-2019)
 Source: World Bank and OECD

Inflation in Australia has been stable and, on average 2,5% since 2000, with a 4,3% peak in 2008 and with a 0,7% trough in 2020. The remarkable low 2020 inflation, based upon analysts' research, comes from a combination of multiple factors which has affected the global demand and supply. The production constraints arising from manufacturing interruptions and disruptions to trade and transport as well as the costs faced by producers related to mandatory health measures pushed prices upwards. However, the strong decrease in demand resulting from the fear of contagion, the deteriorating financial health of households, and the uncertainty related to the labor market resulted in downward pressure on prices. For the next 6 years, inflation is projected to grow steadily reaching its normal level, being 2,5% in 2026.

New Zealand

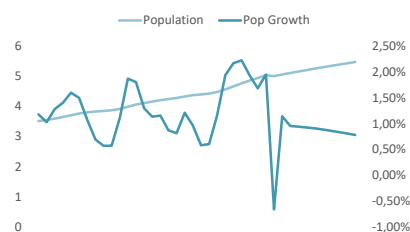


Figure9. New Zealand Population in Millions (1991-2030)
Source: Statistics New Zealand

Since 1991, the New Zealand population grew more than 1.5 million, reaching the 5 million mark in 2019. This growth was mostly explained by a higher number of births compared to deaths (almost half of it), and years with a spike in growth were mostly due to high net migration. Moreover, since 2013, net migration has been responsible for more than half of the population growth. Based on projections done by the New Zealand Government in 2016, the population is expected to decrease in 2020. However, the negative 2020 variation is not expected to materialize since the population has, during the last 4 years, grown more than what was forecasted. Considering that and the 2016 projection, by 2030 the population is expected to be composed of 5.5 million individuals.

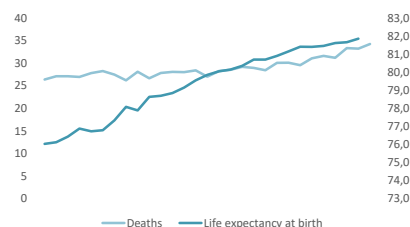


Figure10. New Zealand Deaths (in thousands) & Life expectancy at birth (1991-2019)
Source: Statistics New Zealand and World Bank

The number of deaths in New Zealand has been mostly constant, particularly from 1991 to 2010. Thereafter the number of deaths had some spikes in 2011, 2014, and 2017, reaching 34.240 deaths in 2019. Since 2003 the mortality rate has been below 7 deaths per 1000 individuals. According to UN projections that number is expected to rise to close to 8 deaths per 1000 individuals by 2030. Considering life expectancy at birth, we can infer, as expected, that number has been increasing from 76,03 years in 1991 to 81,86 in 2018, and as mentioned for Australia, that number is expected to keep rising although at a slower pace. Along with this fact, the median age of an average New Zealander rose from 31,5 years in 1991 to 37,4 years in 2019, a value closer to the record high hit in 2013 of 37,6 years.

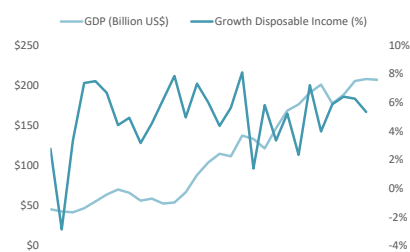


Figure11. New Zealand GDP and Disposable Income Growth (1990-2019)
Source: World Bank and Figure.NZ

The New Zealand economy has been growing over the last three decades at a high pace, particularly since 2001, with a cumulative growth of around 285%. Although it had a downturn period in 2015, where it shrank 11,7%, in 2017 it had already fully recovered, reaching a record high in 2018. New Zealanders' real disposable income has grown 5% YoY since 1992.

Singapore

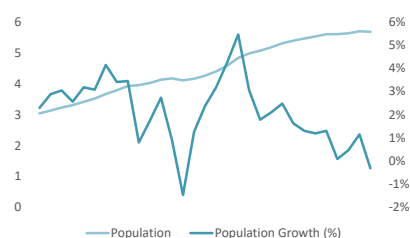


Figure12. Singapore Population in Millions (1990-2020)
Source: Department of Statistics Singapore

Singapore has been experiencing a huge rise in population over the past 30 years. Since 1990, the population almost doubled, from near 3 million to 5.7 million in 2019, growing at a CAGR of 2%, only contracting in 2003 when the population decreased by 1,46%. By 2025, according to current projections, the Singaporean population is expected to reach the 6 million mark. This growth can be explained by the greater number of births, compared to the number of deaths. In 1990 the number of births was more than 3,5x the number of deaths, but the multiplier has been decreasing due to a lower fertility rate, which was in 2019

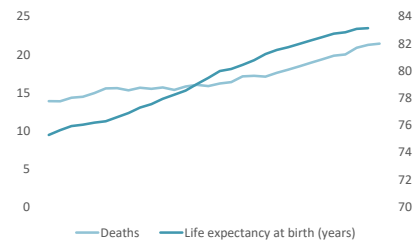


Figure13. Singapore Deaths (in thousands) & Life expectancy at birth (1990-2019)
Source: Department of Statistics Singapore

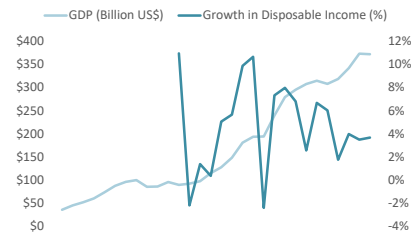


Figure14. Singapore GDP and Disposable Income Growth (1990-2019)
Source: Department of Statistics Singapore

1,8x the number of deaths. This decrease partly explains the lower population growth when compared to previous periods.

The number of deaths had an all-time high in 2016 when it reached 20.000 deaths. Moreover, it grew 1,5% on average YoY, with the period between 2010 and 2018 being particularly responsible for that. The life expectancy at birth has also been increasing every year following what is happening in the rest of the world. In 1990 it was 75,2 years, and in 2018 it was 83,1, increasing at a slower pace in recent years.

In line with the previous data, the median age of the resident population has increased from 29,8 years in 1990 to 41,5 in 2020, has births are decreasing.

The economy of Singapore has increased more than 900% from 1990 to 2019, being, nowadays, one of the most developed economies in Asia and in the world, with a consistently positive surplus and high government revenue. From 1991 to 1996 its GDP grew at a CAGR of 10%, with some of those years growing at a rate above 20%. From 1997 to 2003 the economy was stagnant, as it was particularly affected by the 1997 Asian financial crisis (in 1998 the economy shrank by 15%). Then in 2004 until 2011 it rose again by more than 14%, on average, YoY. Thereafter, GDP growth was more stable. The disposable income in Singapore has been increasing every year since 2000, except for 2002 and 2009, due to the dotcom bubble and the 2007/2008 financial crisis, but it is important to mention that in the year before (both in 2001 and 2008) the disposable income rose by more than 10%.

COVID-19 Pandemic Crisis

The year 2020 started with one of the biggest challenges Humanity has seen in recent years. In December 2019 it was identified a virus in Wuhan, China that quickly spread to the rest of the world, but that was not well-known by the science community. The lack of knowledge, the easiness of its spread, and the death rate particularly in older people and people with breathing problems led the World Health Organization to declare COVID-19 a global pandemic in March 2020.

In December 2020, the first two vaccines were approved by the FDA and started being distributed to the population. Although the social distancing measures and travel restrictions will remain for most of 2021, it is a belief that, by the end of 2021, a significant proportion of the population will have taken the vaccine, thus allowing for herd immunity and a progressively return to normality, starting in 2022.

Until most of the population gets the vaccine and become immune to the virus, the only way to mitigate the spread of it is to implement social distancing and preventive measures. Even though some countries alleviate their measures after periods of lockdown, people's daily lives have specific guidelines in terms of what they can do.

In January 2020, Australia confirmed the first cases of COVID-19 leading to the implementation of strict measures by the Government. The exponential confirmed cases led the regional government of Western Australia to issue a state of emergency in March 2020. One of the most effective measures was the introduction of travel restrictions. Even though this measure was standard practice across most developed countries, Australia, New Zealand, and Singapore are islands, which allow for stronger border control, as the only inland accesses are via air and sea. New Zealand's control of the pandemic was even more effective, as the country closed its borders to non-residents in March and entered a nationwide lockdown in the same month when it had less than 300 cases. Due to these measures and the constant monitoring of the new cases, when the world was hit by the second wave, New Zealand had a maximum of 14 daily cases.

A combination of scientific factors may lead to a faster recovery and lower impact of a second COVID-19 wave across the three geographies. Due to the geographical concentration of its operations in the southern hemisphere, the underlying factors that tend to intensify and facilitate the diffusion, and air life expectancies of the virus, such as humidity, weather, and exposure to sunlight, are expected to be minimal. This may lead to less strict confinement restrictions that until now prevented large gatherings and events to be hosted.

As of December, the countries located in the southern hemisphere are transiting between wintertime towards spring. Therefore, temperatures are expected to rise in the foreseen future leading individuals to spend more time outside, increasing sunlight exposure, which has been scientifically proven to reinforce the immune system. Moreover, as people spend less time indoors, humidity becomes to be of lesser concern. A recent study done by the Leibniz Institute for Tropospheric Research concluded that "If the relative humidity of indoor air is below 40 percent the particles emitted by infected people absorb less water, remain lighter, fly further through the room and are more likely to be inhaled by healthy people". The importance of significant atmospheric humidity is that it increases the weight of the virus particles being the traveling distance shorten. Moreover, and considering that in winter months people spend more time indoors, proper ventilation is challenging, as low outside temperature lead to the use of heating equipment that causes the air to be drier which "... makes the mucous

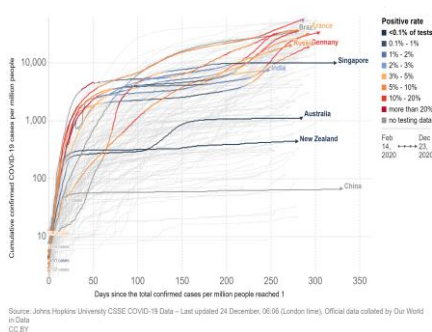


Figure 15. Cumulative confirmed COVID-19 cases per million people (log)
Source: Johns Hopkins University CSSE COVID-19 Data

membranes in our noses dry and more permeable to viruses". As a result, it is expected that Australia, New Zealand, and Singapore will have an easier second wave when compared to the European countries and America.

The pandemic and subsequent economic shutdown impacted all sectors of the economy, primarily those dependent on in-person interactions, as the implementation of strong distancing measures led to the reduction of private consumption, capital productivity, and employment rate by 0,5%, 0,57%, and 1%, respectively, according to PWC and Australia Bureau of Statistics. Moreover, and mirroring what happened in the aftermath of the Great Recession, the proximity to China will prove to be a crucial factor of Australia's recovery which is projected to grow by 3% in 2021, reaching its GDP steady-state level of 2,4% in 2025.

▪ Impact of COVID-19 on the Funeral Service Industry

2020 has been an extremely difficult year for funeral service companies, as the COVID-19 outbreak, and government confinement measures have limited their ability to provide the normal range of service. Even though funeral homes' primary function is the celebration of deceased's life, most of their revenues come from hosting large events, with more than 100 people, where they can cross-sell a multitude of products. Therefore, the strong health guidelines preventing large gatherings introduced in early March by the Australian, New Zealand, and Singaporean governments have damaged financially the funeral sector.

Moreover, the new ecosystem not only affected the supply, but it also had a profound impact on the demand side as customers started scaling-down, looking for cheaper alternatives that accommodate their needs and new social dynamics. According to industry analyst's research, "... consumer [are] purchasing simpler funerals, either at the graveside or at a crematorium, no wakes, no viewing at the funeral (viewing chapel are too small to safely accommodate viewers within social distancing guidelines), fewer flowers and orders of services/others stationary purchased, fewer added extras such as elaborate caskets, and no limousine transport. There has also been an increase in the number of direct cremations". This shift has been eroding the funeral homes margins as those items have been put aside.

To understand the financial and operational impact of the pandemic on the funeral industry one needs to investigate a broader segment, Business Events Industry (BE). Since COVID-19 was considered a global pandemic and distancing rules were in place, the Australian event industry saw 96% of the 2020 scheduled events being canceled or postponed, resulting in BE companies facing losses up to 100% in the next 12 months, totaling more than A\$35 Billion. Even

though InvoCare is not truly part of this segment, most of its revenues are still highly dependent and generated from hosting large gatherings.

ESG Bonds

ESG stands for Environmental, Social and Governance, and investors are following the current trend of moving to a more sustainable world, by investing in ESG financial instruments such as green bonds. Green bonds aim to raise money for environmental and climate projects and have become a trend in recent years, with green bonds' issues growing by 51% in 2019. The rise of ESG concern may favor InvoCare as it may be able to reduce its debt cost since companies with good sustainability ratings got 15% more investment per month than those with poor ratings leading to capital being raised at lower rates. As InvoCare tries to introduce in its portfolio ecological products it may be able to benefit from this new financial product that has caught the investors' attention. According to JPMorgan, the assets under management that follow sustainable principles will be worth \$45 trillion by the end of 2020. Moreover, with the current pandemic, we are already seeing and expecting this segment to accelerate the already fast-pacing industry of ESG bonds with 55% of the global investors believing that the COVID-19 crisis will be positive for the ESG momentum, and companies that aim to issue bonds and raise capital will do it through these vehicles.

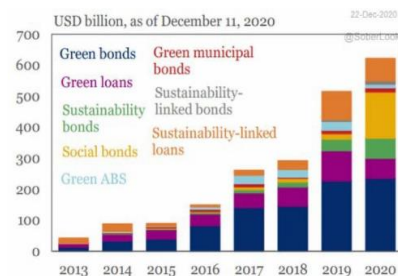


Figure16. Sustainable debt issuance (2013-2020)
Source: Bloomberg, IIF

Key & New Funeral Industry's Drivers

The funeral service industry has, for the last few years, been subject to new market, economic and demographic dynamics which have forced providers to rethink and reorganize their business models. As a result, a restructuring path has become more evident as the different business segments started to move away from their conservative and traditional characterization toward a more contemporaneous one.

Inorganic Growth

Acquisitions have been a core pillar of InvoCare's growth strategy since it became public in the early 2000s. M&A operations are seen as the only viable strategy for funeral providers who look to expand and gain market share. The "ACCC found in their market assessment in 2011, while barriers to enter are low, the barrier to generating an adequate return are relatively high. New entrants in the funeral industry can take up to five years before a local reputation is built and the requisite number of funerals are performed to make a business profitable.". The dependency over this type of strategy is a byproduct of the demand side,

which is driven by reputation, brand recognition, proximity, and presence within the community, a sentiment that takes time to build.

From 2003 until 2014, InvoCare's strong investment strategy led to the acquisition of 17 operations across the metropolitan areas of Perth, Sydney, South East Queensland, Adelaide, and Melbourne enabling the capitalization of A\$133 M in additional revenues. Moreover, the operations were not restricted to Australia but were also performed across New Zealand and Singapore. InvoCare's success, throughout the 11-year period, reflected a 6%, 19%, and 10% market share gain, accordingly, across the three geographies.

Market Share	2005	2015	2018
AUS	19%	34%	39,5%
Sydney		43%	
Melbourne		27%	
SE Qld		33%	
Perth		45%	
Adelaide		26%	
NZ	0%	19%	19,1%
SG	0%	10%	10%

Figure 17. Market Share gain across the three geographies – 2005, 2015 & 2018
Source: InvoCare Corporate Presentation, Propel Funeral Partners' Prospectus

Despite a well-developed expansion and internationalization process, InvoCare's two core markets, Australia, and New Zealand are still highly fragmented. As of 2018, roughly 56% and 74%, respectively, of the industry is still in the hands of small family-owned businesses. Nevertheless, consolidation is expected soon, as internal conflicts such as relationship breakdowns, succession planning difficulties and health-related problems may force the sale to the big market players who look for greater geographic coverage and penetration across metropolitan and regional areas.

Regional Acquisitions

■ Sea and Tree Changers Movement – Internal Migration

As of today, the regional funeral industry provides almost 50.000 yearly funerals, roughly 33% of the deaths in Australia. In the next 25 years, as the regional population ages and grows, the number of services is expected to rise significantly. "Between 2011 and 2016 over 650.000 capital city residents moved out, and of these over 400.000 (63%) chose to move to a regional area". Over the last decade, capital cities like Sydney have recorded a net internal outflow. The growing importance of this market geography, previously untouched, forced the reorganization of InvoCare's investment strategy, as its regional market share (5%), is well below the 34% it holds in the metropolitan areas.

The Sea and Tree Changer Movement led by the baby boomer generation (those born between 1946 and 1974) have been reshaping the Australian demographical and geographical paradigm. In the early 2010s, the older segment entered the retirement age and, looking for a slower life-style pace, started to move towards the coastal and mountain areas in the outskirts of metropolitan cities, where they are expected to remain until the end of their lives. Furthermore, the exodus is not limited to the baby boomers' but has been exponentiated by those born in the '90s. The accessible housing market, employment

	OUTER SUBURBAN CHANGES			
POPULATION GROWTH SCENARIO	INCOME	HOUSE PRICES	EMPLOYMENT	CONGESTION
POPULATION GROWTH SCENARIO				
+40 YEARS CURRENT PATH	↑	↑	↑	↑
+40 YEARS REGIONAL FOCUS	↑	↑	↑	↑

Figure 18. Differentiating factor between metropolitan and regional areas.
Source: McCrindle Report on Australian population

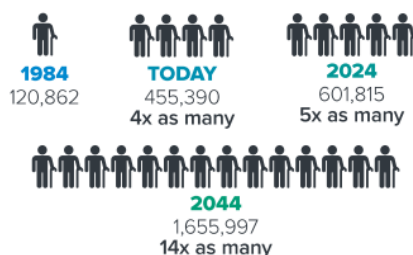


Figure 19. Evolution of the over 85 Australian population.
Source: McCrindle Report on Australian population

opportunities, and children friendly environment have been luring them as it offers the social and financial security they want to start a family.

Despite the age gap between the above mention groups, both represent InvoCare's future target demographics. Nevertheless, the need to reorganize and address the baby boomer generation comes from its growing market relevance. A study commissioned by the Australian Funeral Directors Association projects them to grow at a CAGR of 2,46% in the next 24 years with yearly deaths being more than 250.000 by 2044, a 66% increase compared to today.

Due to a growing elder demographic concentration within regional areas and under the assumption the funeral provider chosen is the one closest to the deceased residency, InvoCare has shifted its M&A focus toward this region. The strategic change is supported by analysts' research which concluded "... the inherent emotional distress people experience when arranging a funeral, they understandably tend not to spend time comparing providers. They typically choose to use a funeral director that has been recommended or is familiar to them. For crematoria, people generally select one that is closest to them geographically". As a result, in 2018, 11 acquisitions were done, from those 9 were in regional areas adding 1940 funeral cases in Australia and 780 funeral cases in New Zealand. The additional case volume implied a revenue increase of A\$13,4 M and NZ\$6,6 M, respectively.

In the next years, the foreseen M&A activity might be exponentiated by COVID-19 as the worldwide pandemic defined by severe lockdown restrictions, negatively impacted businesses dependent on hosting events such as the funeral industry. Therefore, small operations, the most affected by this challenging ecosystem, may be forced to sell, as they may not be able to adjust to the new market characteristics. As a result, InvoCare has been presented with the opportunity to acquire relevantly and established brand names priced below-market prices and operating in growing and attractive communities.

Digitalization

In 2017, an infrastructure renovation process, Network & Brand Optimization Program, was launched to renovate and refurbish InvoCare's locations in order to create an environment that could host more and larger events, celebrate the deceases live in a bright and warm venue, and be adjustable to its customers' needs and expectations.

The A\$200 M in net Capex to be invested came from the need to offset the market share loss felt during the last years as the traditional funeral segment, a crucial part of the operations, started to lose traction given the baby boomers'

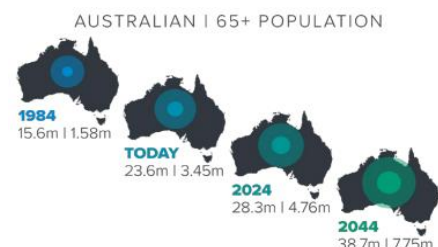


Figure 20. Evolution of the over 65 years Australian population.
Source: McCrindle Report on Australian population

Australia		Funeral Cases	Cremation Cases	Revenue	Completion
Hastings Funerals, Port Macquarie NSW	Regional	400	-	A\$2.7m	Sep 2018
Harrison Funerals, Ballarat VIC	Regional	150	-	A\$1.0m	Sep 2018
Grafton & District Funerals, Grafton NSW	Regional	300	-	A\$2.0m	Aug 2018
Archer & Sons, Bunbury WA	Regional	330	-	A\$2.4m	Jul 2018
English Rose Funerals, Adelaide SA	Metro	140	-	A\$0.7m	Jul 2018
Lester & Son, Albury / Wodonga VIC/NSW	Regional	460	200	A\$3.5m	Jul 2018
Southern Highlands Funerals, NSW	Regional	100	-	A\$0.7m	Jun 2018
J.A Dunn Funeral Services, Launceston, TAS	Regional	200	-	A\$1.0m	Mar 2018
TOTAL		2,080	200	A\$14.0m	

Figure 21. Acquisitions Performed in Australia by InvoCare
Source: InvoCare Corporate Presentation

New Zealand		Funeral Cases	Cremation Cases	Revenue	Completion
William Morrison Funerals, Auckland	Metro	950	720	NZ\$5.2m	Aug 2018
Hope & Sons Funeral Directors, Dunedin	Regional	650	470	NZ\$5.8m	Jun 2018
Whitestone Funerals, Clarendon	Regional	130	90	NZ\$1.0m	Jun 2018
TOTAL		1,730	1,280	NZ\$12.0m	

Figure 22. Acquisitions Performed in New Zealand by InvoCare.
Source: InvoCare Corporate presentation



Figure 23. Old Chapel prior NBO Program.
Source: InvoCare Corporate presentation

perspectives over funerals started drifting from the traditional approach. A 2014 study conducted on the Australian population, to the over 50s, concluded that more than half wanted the service to be held in a relaxed, reflective, and fun environment, moving away from the church and priest-presided ceremony. According to them, the funeral should be a celebratory moment used to recognize their life instead of mourning their death.

As a result, the program's purpose was to reposition and initiate a system-wide rebranding, addressing key market changes from the demand side who looks for modern and bright facilities equipped with the newest technologies allowing them to tailor-made the funerals according to their needs and preferences. Social media platforms have been used to generate outreach to friends and family that want to pay their last respects. Likewise, imaging and broadcasting software have been and will be installed across InvoCare's network allowing them to stream the ceremony to those unable to attend. The transformation, still ongoing, led to the creation and introduction of a new sub-segment of additional services, unavailable in the old-fashion and underperforming facilities.

The pandemic made digitalization a key differentiating factor when choosing the provider, as attendance limitation prevented normal events to be hosted. InvoCare's early retrofit gave them the first mover advantage since those without the appropriate technology have been affected due to a responsive lag. Moreover, smaller funeral homes, with few locations, may be unable to digitalize as the required investment and shutdown time may cause significant operational disruption.

Additionally, the NBO program is expected to capture case volume that otherwise would be satisfied by the traditional segment as baby boomers, responsible for the organization of their parents' funeral, are expected to choose a provider that, simultaneously, respects their parents' (demographic target by the traditional segment) wishes and is aligned with their preferences.

Currently, 52,3% of the 221 proposed locations have been renovated and have shown promising financial and operational results as operational leverage EBITDA is up by 6,9% when compared to 2018 and 8,5% when compared with 2019. Additionally, before COVID-19, renovated locations had been outperforming the market as the case volume grew by more than 4,9%, compared with the industry's 1,9%. Despite the positive signs, the impact of the program is still uncertain and hard to quantify as InvoCare's unrenovated locations have shown double-digit case volume decreases and market share gain has not met expectations.



Figure 24. New Chapel under NBO Program.
Source: InvoCare Corporate presentation

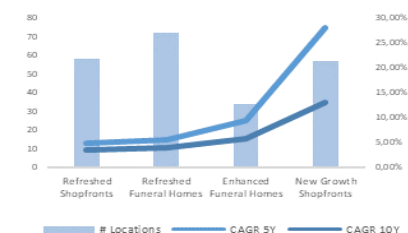


Figure 25. Number of renovated locations under the NBO Program and Expected CAGR (%) regarding case volume
Source: InvoCare Corporate presentation

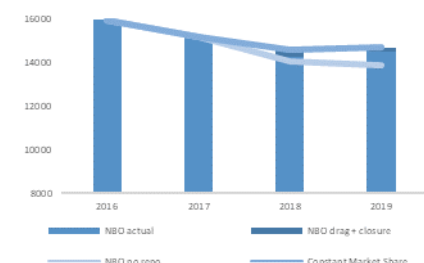


Figure 26. Performance comparison between renovated locations with and without the NBO Program.
Source: InvoCare's Annual Report 2019

Due to the restrictions imposed by the COVID-19, on March 2020 an Institutional Placement and Share Purchase Plan was completed raising A\$270,912 M. From an efficiency standpoint, it makes sense that a significant part of the capital raised is channeled to the NBO program to speed-up and deliver renovated sites as the existing ones can easily satisfy the demand and imposed health restrictions.

According to the 2020 half-year report, InvoCare plans to overhaul an additional 50 locations this year while the remaining will be spread over a period of 3 years to limit the impact on the company's earnings.

Growing non-religious population

Prior to the launch of the NBO Program, the Australian funeral homes were designed to host Christian oriented ceremonies, traditional segment, as its population religious beliefs identified with it. Nevertheless, in the last few years, the above mention segment started to underperform as the daily role and impact of religion become marginal. In 1971, the Christian community living in Australia represented roughly 90% of the population however, since 2000, a steep downward trend has become evident as the population cultural and religious composition changed, with Christians shrinking by half.

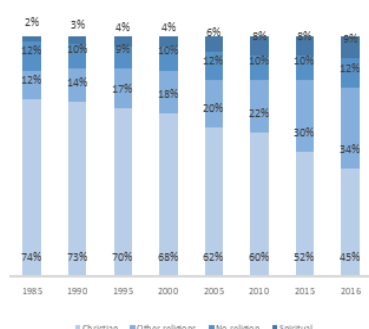


Figure 27. Evolution of the religious composition in Australia
Source: McCrindle and Cultural Atlas

A less devoted population is a byproduct of many factors however, family pressures have been identified as the main driver since in 47% of the cases those who follow Christianity do it because of family beliefs and traditions. Furthermore, when performed an in-depth analysis of those supporting the traditional segment only 15% attends church at least once a month and less of half of them (7%) is an active practitioner.

To address this fundamental market change InvoCare has, through the NBO program, been substituting the obsolete traditional segment with catered services, that fulfill the deceased unique cultural, spiritual, and religious identity. This new dynamic is expected to generate a complete overhaul of the funeral home system in Australia and New Zealand since most, apart from InvoCare, cannot provide customers with attractive alternatives.

Is still important to mention a new market sub-segment driven by specific cultural needs, Hinduism, and Buddhism, that is still partially untouched. To address it, InvoCare has taken the precaution to create within its cemetery network designated areas that can satisfy its customer's cultural identity while creating a relationship with the culturally rich communities living in Australia and New Zealand.

Unavailability of real estate for burial plots

Burial, the preferred departure option for Catholics has been losing momentum. Nonetheless, a less religious Australian population does not fully explain the growing cremation rates seen in the last years. This phenomenon has been a consequence of unsustainable burial price increases due to the lack of public burial plots. The higher prices come from strict zoning restrictions that limit, simultaneously, the construction of new cemeteries and expansion of existent ones, as the available urban land will be used in residential developments to accommodate the growing population.

The problem is transversal across Australia and New Zealand where, according to reports done by the federal governments, the available public cemetery land will be fully consumed within the next 20-30 years. In extreme cases, as it occurs in Christchurch (New Zealand), life expectancy is less than 10 years. Due to the negative outlook, governments have entrusted and started to channel part of their case volume to private providers to extend their cemeteries' lives. The private sector's continuous replanning and restructuring of cemeteries' layouts have increased the life of their assets by an additional 20 years, being able to satisfy the existing demand for the next 50.

Moreover, even under the assumption zoning restrictions are relaxed, which is unlikely to occur, the needed investment to increase plot supply will only be accessible to businesses with strong financial capabilities. As the core operations of a public institution are not the management of cemeteries and crematoria, the needed public investment is expected to be low, being the responsibility left to corporations, like InvoCare.

Business Segments & Financial Outlook

InvoCare's business segments have been adjusting to the new funeral industry's dynamics, as the current products, services, and network facilities no longer satisfy and are aligned with the future users' desires. The funeral homes' growth will depend on **regional acquisitions, digitalization, a less religious population, and the baby boomer generation**. The memorial parks and pre-paid contracts performance will be conditioned by the **rising prices, lack of public & useable land, ESG alternatives, and real disposable income**.

Funeral Services

The funeral service segment is responsible for the event organization of the final goodbye of the deceased. InvoCare operates two national brands, White Lady Funerals, and Simplicity Funerals, as well as multiple regional brands across

KPI's	2017-2019	2020-2030
Whole geographies		
Revenue contribution (%)	75,50%	72,56%
Revenue CAGR (%)	1,16%	4,71%
Case Volume CAGR (%)	1,15%	2,99%
Australia		
Revenue contribution (%)	81,74%	77,0%
Revenue CAGR (%)	0,53%	4,24%
Case Volume CAGR (%)	-0,10%	2,38%
New Zealand		
Revenue contribution (%)	13,37%	17,1%
Revenue CAGR (%)	6,66%	6,00%
Case Volume CAGR (%)	6,00%	4,61%
Singapore		
Revenue contribution (%)	4,88%	5,88%
Revenue CAGR (%)	9,96%	7,38%
Case Volume CAGR (%)	9,28%	6,36%

Figure 28. Segment Key Performance Indicators
Source: Company Data and Analyst estimates

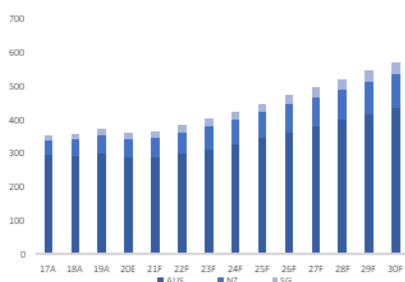


Figure 29. Segment Revenue Evolution (in thousands of A\$)
Source: Company Data and Analyst estimates

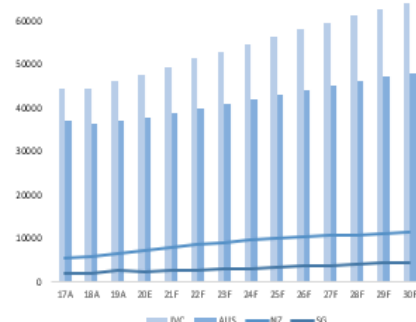


Figure 30. Segments Case Volume Evolution
Source: Company Data and Analyst estimates

Australia, New Zealand, and Singapore. White Lady Funerals provides high-end services that are not at everyone's reach, while Simplicity Funerals provides a budgeted service affordable to all. Its brands' adaptability to the financial, cultural, and religious disparities enables a complete demographic coverage unobtainable by small funeral providers.

As of 2019, Australia was responsible for 80% of the segment's revenue, A\$298,8 M. In the last 3 years, the Australian metropolitan market has provided 110.000 services however, its case volume has been deteriorated with the CAGR being negative (-0,1%). The underperformance of its core market comes from the regional exodus led by the older generations and the subsequent rejuvenation made it unattractive. As a result, from 2017 to 2019, Australia's revenue grew 0,5% YoY while New Zealand's and Singapore's CAGR was 6,7% and 10% accordingly, through acquisition and facilities expansion.

To address the low growth of its primary geography, InvoCare has restructured its acquisition strategy to follow the sea and tree changer movement. In the next decade, regional M&A activity, initiated in 2018, is expected to intensify to increase market presence and create community awareness. Proximity to potential clients' residency will be a crucial case volume and revenue driver as families tend to choose the funeral provider closest to them, as previously explain.

As a result, the strategical repositioning will enable a stronger presence across the regional market and the Network & Brand Optimization Program will provide an overhauled product portfolio which is expected to turn around the before mention situation. In the next 10 years, Australia's case volume CAGR is projected to be 2,38%, providing more than 470.000 funerals, 76,05% of InvoCare's services. The positive outlook will consequently impact the revenue CAGR which is projected to be 4,24%, being the growth more evident during the last five years, 2025-2030, with a CAGR of 4,76%. By 2030, Australia's revenue is projected to be A\$434 M.

New Zealand and Singapore revenue contribution will increase slightly but the rising focus within Australia will negatively impact their revenue growth, the 10-year CAGR will be 6% and 7,31%, respectively.

Memorial Parks

The memorial parks segment is focused on providing a last resting place to the deceased via burial, cremation, and storage of the remains. The burial is normally the most expensive option as it requires the acquisition of a plot of land which, as any piece of real estate, respects the supply and demand rule. In the

KIP's	2017-20219	2020-2030
Whole geographies		
Revenue contribution (%)	24,44%	23,85%
Revenue CAGR (%)	3,31%	4,11%
Case Voume CAGR (%)	1,15%	2,99%
Australia		
Revenue contribution (%)	97,46%	97,7%
Revenue CAGR (%)	3,15%	4,03%
Case Voume CAGR (%)	1,18%	2,99%
Burial CAGR (%)	0,59%	-1,50%
Cremation CAGR (%)	1,42%	4,17%
New Zealand		
Revenue contribution (%)	2,54%	2,34%
Revenue CAGR (%)	2,03%	5,32%
Case Voume CAGR (%)	-0,10%	2,99%
Burial CAGR (%)	-0,10%	-1,50%
Cremation CAGR (%)	-0,10%	4,17%

Figure 31. Segment Key Performance Indicators
Source: Company Data and Analyst estimates

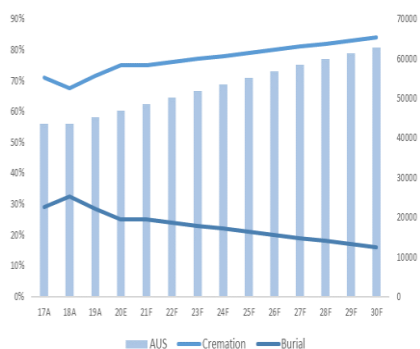


Figure 32. Australian case volume and cremation & burial rate
Source: Company Data and Analyst estimates

last years, plot availability has decreased significantly. Additionally, the interment period, the timeframe the deceased is buried lasts for at least 50 years hence, as existing plots cannot be reused, demand will most likely surpass supply. Since 2017, cremation has become a popular alternative being chosen, on average, in 70,1% of the cases.

Throughout the forecasted period, the cremation rate is expected to spike as the scarcity of burial plots and everlasting price increases will make the latter format unattractive and out-of-reach. By 2030, burial prices are expected to be 7,55x the cremation price, almost 2x higher than in 2019. The widening spread comes from a despair price growth, as burial prices are projected to grow 4,18% YoY, 205bps more than cremation prices, as the latter is not restricted by a physical asset, land.

In Australia, and due to COVID-19, the 2020 cremation rate is projected to be 75%, 350 bps higher than in 2019. The trend is expected to be kept in 2021 as the impact of the pandemic is still uncertain and consumers are looking for cheaper options. Until 2030, the cremation rate is projected to keep the 2017-2019 upward trend with yearly increments, 100bps, to reflect the impact of burial prices, lack of available land, and a less religious population, stabilizing at 84%.

Historically, Australia has been responsible for 97,5% of the generated revenue and this is not expected to change nevertheless, this revenue composition will undergo significant modifications. From 2020 until 2030, the geography case volume is projected to grow 2,99% YoY. The foreseen higher growth, +1,81%, is explained by the unparallel cremation case volume CAGR of 4,17%, being this driver up 272bps from 2017-2019. Despite, the positive cremation volume outlook, burials are expected to hinder InvoCare in the long run, as this memorial format is projected to decline at a CAGR of 1,5%. Despite the expected decrease, this sub-segment will still represent at the end of the forecasted period 59% of the segment's revenue, A\$171 M. Cremations will see its revenue contribution increase 600bps to 40,1%, almost doubling it, A\$71 M.

Additionally, the rising ESG concerns and willingness to create a more sustainable planet have led to the introduction of eco-friendly alternatives, green burials, biodegradable urns, and ashes transformations. This new market segment will enable a faster land reuse benefiting InvoCare's profitability.

Pre-Paid Contracts

This segment is still recent as the underlying product has only been created a decade ago. Despite being a novelty, it has become an integral part of

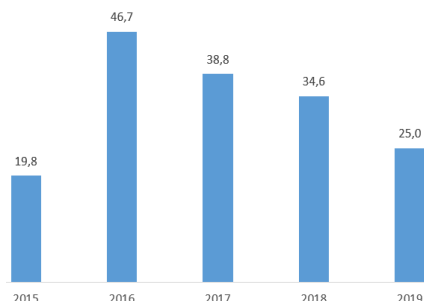


Figure 33. Volume of Pre-Paid contracts sold in the last five years (A\$M).
Source: InvoCare's Annual Report 2019

InvoCare's operations since, without it, its market share could be as much as 22% lower.

In the last 5 years, InvoCare's sold, on average, A\$32 M worth of contracts, yielding an average return of 9,76% on the AUM. Since the capital is invested on well diversify portfolios, the forecasted return is expected to track the historical performance of ASX-200, the Australian market index, yielding a yearly return of 5,32% until 2030. Slightly conservative forecast when compared with the realized returns.

The bespoke pre-paid contract's pricing mechanics enables the buyer to lock the price of the funeral today, avoiding unsustainable price increase which will result in the degradation of their consumption power. In the last 10 years, even though the Australian real disposable income grew 3,35% YoY when benchmarked against the CAGR of burial prices (4,18%) a loss of consumption power becomes evident for this product.

Another factor that provides further ease to potential customers and encourages them to choose prepaid contracts is the capital protection covenant in place. This unique feature of prepaid contracts means the upfront payment is going to be held by a third party, who manages and invest the funds on behalf of the funeral home. The last only receive the cash once the death occurs. Moreover, in case of bankruptcy, inability of the funeral house to provide the contracted service, or in case the death occurs outside the state the upfront is transferred to the decease's estate.

The same benefits are not achieved with funeral insurance as a variable premium is paid through the life of the contract and the payment tends to increase over time and with the age of the policyholder. Hence, in some cases, the sum of all payments can exceed the cost of an at-need funeral. Moreover, in case of payment default the insurance company is not responsible for the policy payment, increasing the financial distress felt by the holder and his family.

Pre-Paid Contract's simplicity, customer adaptability, and pricing mechanism, unmatched by the other available products (funeral and bond insurance), will be some of the responsible factors for the forecast segment growth.

The number of prepaid contracts sold is projected to decrease in 2020 and 2021 given the financial impact that COVID-19 had on the family's expenditure possibilities, especially when considering that a funeral will range between A\$8.000 and A\$15.000. However, because of the product characteristics and expected fast economic recovery of the geographies InvoCare operates in, from 2022 until 2024 sales are projected to return to 2019's value growing 3,5% YoY.

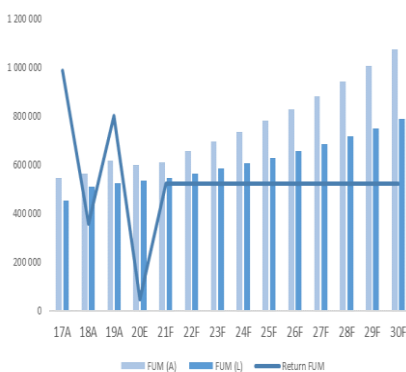


Figure 34. Pre-Paid Contracts AUM & LUM, Return & Cost of AUM & LUM
Source: Company Data and Analyst estimates

From 2025 onward, contracts sold are projected to grow an additional 0,2% YoY as baby boomers are expected to start their funeral arrangements.

Pet Cremation

KPI's	2018-2019	2020-2030
Australia		
Revenue contribution (%)	0,06%	3,58%
Revenue CAGR (%)	308,08%	4,80%
Case Volume CAGR (%)	308,08%	42,01%

Figure 35. Segment Key Performance Indicators
Source: Company Data and Analyst estimates

In late 2018, InvoCare entered a new adjacent market focused on the cremation of small port animals like cats and dogs. By expanding the cremation operations, InvoCare entered a market valued at A\$12,2 B. Since 2013, the pet industry experienced a 43% increase through a sustained YoY growth at a rate of 4,45%.

The knowledge and experience gathered from two decades within the funeral service industry will be crucial throughout the next five years as they build their brand, patch, and establish a relationship with the surrounding communities of NSW.

The pet industry evolution has followed the rising of animal rights movements which have led to a change in perspective over what pets are. They are no longer seen as just an animal but have become a crucial family member. Pet expenditure has risen significantly as more services and higher quality products are made available. In 2017, the yearly cost of owning a dog and cat was A\$1.975 and A\$1.029, respectively.

Families not only give their pets the best care and comfort during their lives but also try to do so on their death. Therefore, the pet cremation segment has, in line with the industry, shown high growth rates as families do not mind spending on average A\$300, around 2,23% of the overall cost of owning a pet, on cremation to guarantee a proper farewell to a beloved family member.

In mid-2020, InvoCare finalized the acquisition of the two largest Australian pet cremation companies giving it countrywide access. With the operation, InvoCare's case volume is projected to increase from 3.000 to more than 65.900 in 2021. From 2021 onwards, as business synergies are realized and the market consolidated, the case volume is expected to increase 4,8% YoY providing 105.000 cremations by 2030. This segment's yearly turnover will be more than A\$30 M, being 6x the revenue generated by New Zealand's memorial parks.

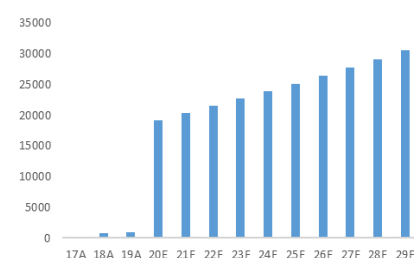


Figure 36. Segment Revenue Evolution
Source: Company Data and Analyst estimates

Intrinsic Valuation

To value InvoCare, we have applied the DCF model, more specifically the Free Cash Flow to the Firm method. As the company plays in one specific sector, and has three different business, across three different geographies, we divided each business unit (funeral services, memorial parks, and pet cremation) for each geography, to better capture its value drivers. For the non-core operations of the firm, we assumed the values of previous periods to remain in the future.

Revenue Forecast

▪ Funeral Services

The funeral services industry is directly connected with the number of deaths, and as we knew InvoCare's overall case volume and each geography historical revenue contribution by multiplying both inputs we were able to estimate the addressable Australian, New Zealand, and Singaporean case volume until 2019. After computing each country's case volume, we were able to determine their market share for each location.

As a result, the main revenue drivers are the number of deaths and the change in market share. Moreover, prices will be affected by inflation, COVID-19, and the before mention industry drivers. To incorporate the impact of COVID-19 on prices, Australia's GDP growth contraction will be used as the benchmark to reduce its revenue in 2020 and 2021 by multiplying it with a scenario without COVID-19. Therefore, a 7% decrease in 2020 is expected due to the pandemic, and a 3,5% decrease in 2021, in line with our expectations that the market will fully recover only after 2021.

For Australia and as we said previously, to incorporate the death CAGR in the terminal value of the company, we estimate yearly deaths between 2020 and 2025 to grow at a rate of 2,3% YoY, decreasing steadily afterward until reaching its steady state of 1% in 2030. Due to the implementation of the NBO program and the expansion to regional areas via an acquisition process, we assumed the market share would grow in line with the average growth of previous periods, plus additional market share gains in 2020, 2023, and 2026 to reflect the expansion of their network. To estimate inflation, we based our analysis on the IMF's projections. As the available data only goes until 2025, we assumed an inflation rate of 2,5% for the future, using the 2025 inflation rate of 2,4%, and the Reserve Bank of Australia target of 2-3% inflation rate.

Considering New Zealand, we estimate the population to be 5.37 Million in 2023 and 5.7 Million in 2028, as the only available projection made by the New Zealand Government was based in 2016 and we adapted to the 95th percentile as it was the most accurate considering the most recent values that we could compare. With this in mind, we projected the population growth to be constant between periods. To estimate the number of deaths we multiplied the population by the mortality rate projected by the U.N. For New Zealand's revenue projections, a similar rationale to the one deployed in Australia was used regarding market share gain. However, the additional gain is projected to be lower than that of Australia, as the bulk of the investment was made in Australia.

Nevertheless, we soften the amount of market share growth coming from previous periods, as it was very unlikely that InvoCare could maintain that high growth over the coming years. The projected inflation rate by IMF is expected to reach 2% in 2024 remaining constant until 2030, as it is in line with the country's historic inflation rate and New Zealand's Central Bank monetary policy. The impact of COVID-19 on revenue is projected to be higher as the country adopted stricter measures to fight the pandemic, which could contract the market to a further extent. As a result, revenue is expected to be 8% lower in 2020 and 4% lower in 2021 when compared to a no COVID scenario.

When analyzing Singapore, we used the resident population and the mortality rate to forecast the country's revenue, since it was the most accurate data available. As the available population projections were only for 2025 and 2030, we used the implicit CAGR on these values to estimate the population. For the number of deaths, we used the U.N. projections on the mortality rate for the country. As in the previous geographies, due to the NBO program, in 2020, we used the increase in market share of 2018, as we considered the 2019 market share growth an outlier, plus an additional increase in the market share growth in 2020, 2023, and 2026 using the same reason as before, but with the additional increase being the lowest from the three locations, as only marginal investments have been made in this geography. The inflation projected by the IMF reaches 1,5% in 2025 and considering past values and the target of the Monetary Authority of Singapore on an inflation rate just under 2%, we assumed it to remain 1,5% for the future. We assumed a 7% decrease in 2020 due to the COVID-19 crisis impact in Singapore and a 3,5% decrease in 2021 compared to what would be a normal scenario.

▪ Memorial Parks

The memorial parks segment is only available in Australia and New Zealand and has two different sub-segments: burials and cremations. The reason for the division is because we believe there is going to be a shift from burials to cremations and the price of both services is very different, as explained before. Regarding the case volume, we used the same rationale as in the funeral services segment, thus we assumed it to be split between Australia and New Zealand according to the revenues per geography in that specific business segment. As so, in Australia, we used as main drivers, the increase in the price of burials, the shift from burials to cremations, and inflation.

According to a 2005 study made by the Legislative Council of the New South Wales Parliament, burial prices grew from A\$3.465 in 2005 to A\$5.439 in 2015.

Considering our assumptions, we estimate burial prices to be, in 2030, A\$ 10.101.

For cremation prices we used the same rationale, from a price of A\$776 in 2005 (as per the NSW Parliament study) to A\$1.001 in 2015, a growth explained mainly by inflation. For the forecasted period, cremation prices are projected to increase in line with inflation if no disruptive event occurs resulting in an abnormal price increase.

In New Zealand, a different approach was used. As this geography contribution for this segment is marginal and has been historically stable, less than 3% of the firm's revenues, we projected it to maintain a similar trend, contributing 2,1% of the segment revenues in the foreseen future. Regarding the shift from burials to cremations, burial prices evolution, and inflation rate, a similar approach to the one deployed in Australia was performed. However, we then represented the total revenue based on the revenue per location. As we knew the average revenue per location, we applied it to the upcoming periods and then computed the number of locations (rounded) based on the estimated total revenue, being the revenue per location our driver in the end.

▪ Pet Cremations

The pet cremation is a segment the firm entered in 2018 in Australia only, with acquisitions and greenfields in New South Wales. In 2020, it acquired two new businesses and extended its presence beyond this state, becoming the market leader in pet afterlife services in Australia. As value drivers of this segment, we considered the growth in market share and the number of pets cremated in the operating states. Until 2021, we based our analysis exclusively in New South Wales, adding the remaining four afterward. We started by forecasting each state population. For the NSW population, we had state government estimates, while in Victoria we did an average of their proportion in the Australian population as it seemed constant. For Western Australia, South Australia, and Queensland 2019 values were used as a benchmark given the yearly relative decrease of the state population. Then we found the number of pets in the operating regions by multiplying the addressable population by the proportion of pet ownership, a value that resulted from a weighted average between the five regions to consider the relevance of each one. As InvoCare's business model focus on dogs and cats, the percentage contribution of these two segments over the pet population was multiplied by the number of overall pets determining InvoCare's addressable pet market. Considering that not all pet owners can provide or afford a pet cremation, we multiplied it by the expected pet cremation rate, yielding the number of pets cremated. Due to the rising animals' rights, cremation rates are

expected to be 6% in 2020, increasing onwards 0,2% per year onwards. The market share is expected to be almost 22% in 2030, mostly due to the acquisition of the two largest pet cremation companies in Australia, which will add 66.000 new cases, increasing the market share by 17,3% in 2021. Moreover, via synergy gains, InvoCare's market is projected to grow yearly 20 bps, which translates into revenue growth of 6%.

Expenses

InvoCare and the funeral service industry are already in a mature stage therefore we expect key expense captions to remain stable as a percentage of revenues in the future. There was no segmentation between the different business units and geographies as the company did not provide any differentiation between them and historically those captions have shown to be constant. Moreover, due to the current situation, the half-year report helped us to understand how the company's expenses have been reacting to the pandemic crisis, thus, we used that report to benchmark our analysis.

From the six core expenses items, we believe three of them will be significantly impacted by the new strategic, operational, and commercial plan launched by InvoCare at the beginning of 2017. Those captions are Finish goods, consumables, and funerals disbursement, Technological expenses, and Advertising and Public relations.

Finished goods, consumables, and funeral disbursements will see a reduction to 24,6% of sales for 2020 and 2021, returning to pre-crisis values in 2022. From then onwards, and due to the expected realization of synergies from the NBO program, which will translate into a more efficient and cost-saving infrastructure, we project this percentage will gradually reduce every year being roughly 24% of sales in 2030.

Since the launch of the NBO Program, a new type of expense has been recognized, Technological expenses. The expenses related to this caption have been increasing in line with the renovation and digitalization of the funeral's homes as InvoCare tries to adjust its product range to customers' demands. Tech expenses are projected to be 2,5% of sales and constant in the foreseeable future as most of the NBO sites will have been renovated.

Lastly, advertising and public relation expenses are projected to be 4,4% for the following 10 years, being 100bps higher when compared to 2019. The percentage increase comes from a stronger marketing strategy led by InvoCare aiming to make its national brands more relevant and known within regional areas. Likewise, as mention before, InvoCare has moved to a new business

segment, pet cremations, therefore, to become a reference provider and increase market visibility of its brands across the surrounding communities' greater expenditure is projected.

The other core captions are only expected to change throughout 2020 and 2021, as they were affected directly by the new situation, returning to pre-COVID levels afterward. The occupancy and facilities expenses will rise in 2020 and 2021 to 4,8% due to the new shop fronts, shared services rentals, and COVID-19 safety and hygiene protocol, as explained in the half-year report. The other expenses have increased in the 2020 half-year compared to 2019, so we projected them to be 3,5% of sales in 2020 and 2021, and become 2,5% thereafter, following the cost-saving strategy of the NBO program.

Capital Expenditure

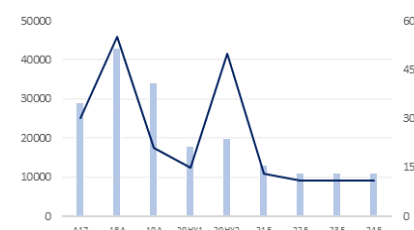


Figure 37. NBO Program Capital Exp – Column (in A\$ K) and Renovated Locations – Line
Source: Company Data and Analyst estimates



Figure 38. Capital Expenditure Business as Normal – Column (in A\$ K) and % of overall revenue – Line
Source: Company Data and Analyst estimates

The rebranding and repositing of the InvoCare location network, under the NBO program, increased substantially the capital expenditure done in the last four years and it is expected to continue at a lower rate until 2024, the end of the NBO program. By 2020, A\$144 M of the projected A\$200 M of net Capex will have been invested across 171 locations. In the next five years, a further 46 locations are planned to be renovated which translates into an investment of A\$46 M. Alongside the NBO Program, InvoCare will intensify the acquisition of regional locations to address new market dynamics identified by the company. The low market presence within regional areas accompanied by the exodus of a key demographic segment, baby boomer, via the tree and sea changer movement forced InvoCare to extend its M&A Activity outside metropolitan areas. As a result, since 2018 an investment pipeline started to be developed and it is projected intensification of the same in the following 6 years. From 2020 until 2025, business combinations, expansion Capex, will total A\$81 M corresponding to 2,5% of yearly revenues. After this period and by 2030, InvoCare's overall capital expenditure will converge to its historical value, of 5,38% of revenues.

ROIC and FCFF Evolution

From 2016 until 2019, the return on invested capital (ROIC) decreased by almost 400bps to 12,55%. The lower ROIC was expected due to the closure and renovation of funeral homes, under the NBO Program, which diverted the case volume to unrenovated locations unable to fulfill customer preferences with the available product range. In 2020 and 2021, the location network renovation would be almost complete and encouraging results were foreseen. The positive outlook was stopped as the COVID-19 pandemic contracted the world economy, affecting mainly industries which core business depends on hosting large events



Figure 39. FCFF – Column (in A\$ K) and ROIC – Line (in %)
 Source: Company Data and Analyst estimates

such the funeral services. The restrictive measures imposed by governments limited InvoCare's ability to provide the full scope of value-added services to its customers. As a result, RONIC and ROIC in 2020 are projected to be -31,15% and 1,30%, respectively. The underperforming locations are not the only factor for the poor results as a new accounting standard implemented in 2019 has significantly increased the invested capital, mainly driven by the right to use assets by more than A\$144 M, leading to an artificial decrease of the ROIC in 2020. In 2021, a 600bp improvement of the ROIC is expected however, the impact of the pandemic will still be evident as the average ROIC in these two years will be around 4,3%. After the projected COVID-19 period (2020-2021), the incorporation of the sea and tree changers movement and Network & Brand Optimization program within the business model is expected to deliver sustainable growth and consistent results. Therefore, ROIC is forecast to stabilize at 11,29% in 2030. Both metrics on Invested Capital, ROIC and RONIC; will during the forecasted period present values well above the WACC yielding investors a return higher than the opportunity cost of capital. Alongside the positive outlook of the ROIC and RONIC, InvoCare's FCFFs are expected to increase in line with an elder population and higher case volume, generating an FCFF of A\$96.760 M by 2030.

Cost of Capital

InvoCare Cost of Capital	
Risk-free rate, MRP, group beta	
10y Australian gov. Bond	0,98%
Market Risk Premium	5,23%
InvoCare beta	0,998
Discount rate - WACC	
Cost of debt - InvoCare	
Effective AVG. Interest rate	3,94%
Cost of debt - Peers - Traded bonds	
Rd - bond approach	2,96%
Cost of Debt	3,94%
Cost of Equity	
Beta unlevered (peers median)	0,542
Beta levered	0,998
Target net det/equity	1,202
Cost of Equity	6,20%
Tax Rate	30%
WACC	4,32%

Figure 40. Cost of Capital
 Source: Reuters and Analyst computations

To discount the cash flows generated by the core operations, the cost of capital has been computed. The cost of equity was derived from the CAPM model. As our forecasted period was until 2030, the 10-year Australian government bond, rated AAA by S&P, priced at 0,98% YTM was used as the risk-free rate. Additionally, the proposed market risk premium, based on analyst research, Aswath Damodaran (NYU Stern), is 5,23%. To compute InvoCare's beta the ASX-200 was considered the best proxy of the market portfolio as its shareholder base is largely composed of Australian investors. To derive the cost of equity, we had to analyze InvoCare's peers. InvoCare's peer group was selected based upon the similarity of business models, geographic proximity, and market capitalization. The selected companies were Dignity, Carriage Service Incorporated, Service Corporation International, Propel Funeral Partners, and Fu Shou Yuan. From these Service Corporation may be considered an outlier as its' market cap is almost 3x InvoCare's. However, InvoCare was born as a spin-off of the SCI's Australian operations. For the levered beta, a five-year period of InvoCare's and its peers' weekly returns were regressed against ASX-200. Since companies have different capital structures, we had to unlevered the betas to account for it and the tax rate. Afterward, the median of its competitors' unlevered

Peers Group	
Company	Unlevered Beta
Dignity, Plc	0,262
Carriage Services Inc	0,341
Service Corporation Int	0,612
Propel Funeral Partners Ltd	0,572
Fu Shou Yuan	0,542
Invocare	0,412
Median	0,542
CI (95% probability)	0,236 - 0,588

Figure 41. Comparable Unlevered Beta
Source: Reuters and Analyst computations

beta was computed to get the industry's beta which was re-leveraged with the 2030's target capital structure, being the debt to equity 120,2%, yielding a levered beta of 0,998. The cost of equity, computed via the CAPM model, is 6,20%. For the cost of debt, the best available proxy is the effective average interest rate, provided in the 2019 annual report, since InvoCare does not hold any outstanding public debt and intends to keep raising capital, debt, with private institutions. Thus, the cost of debt was set at 3,94%. Using its peers as a benchmark, the cost of debt computed as the average of $YTM - PD \times LGD$ would have been 2,96%. Moreover, a 4,32% WACC was computed.

Multiple Valuation

To complement the fundamental analyses, a multiples valuation was performed. As mentioned before, the peer group consists of Dignity, Carriage Service Incorporated, Service Corporation International, Propel Funeral Partners, and Fu Shou Yuan. For the relative valuation, four equity and two enterprise multiples were used: Price-to-Book, Forward-looking Price-to-Earnings, Historic Price-to-Book, Five-Year Price-to-Book, Enterprise-to-EBITDA, and Five-Year Enterprise-to-EBITDA, which incorporate the past, present and future market and analyst's expectations as well as structural changes that have been more prevalent in the industry during the last decade that InvoCare is still adjusting to.



Figure 42. Implied Share price of InvoCare – Football Field Analysis
Source: Reuters, Analyst computations

Sensitivity Analysis

A sensitivity analysis was performed with respect to InvoCare's levered beta and the terminal growth rate as both DCF inputs are crucial valuation components. The leveraged beta was chosen since through the process of determining the Funeral Industry asset beta, 3 of the 5 comparable do not operate on the Asia-Pacific geography. However, as we regress their excess return against the ASX-200, Australian market Index, we are comparing economies defined by despair fundamentals. As a result, it might not yield the true companies' beta. Since this input is crucial to determine the cost of equity and, subsequently, the WACC, a delta of 20bp was assumed to test the sensitivity and valuation impact. Since the funeral industry is not either countercyclical or procyclical its beta should be close to 1. Considering the DCF terminal growth rate and a positive 20bps beta increment, the price/share would be A\$11,04.

InvoCare Sensitivity Analysis						
Beta Relevered						
	0,598	0,798	0,998	1,198	1,398	
Growth	-0,20%	14,73	12,51	10,76	9,35	8,19
	0,20%	16,50	13,81	11,75	10,12	8,80
	0,60%	18,77	15,43	12,95	11,04	9,52
	1,00%	21,81	17,51	14,44	12,14	10,37
	1,40%	26,09	20,26	16,34	13,52	11,39

Figure 43. Sensitivity Analysis (Price in A\$)
Source: Analyst computations

For the terminal growth rate, a 40bps delta was assumed, but with a different rationale. The base case scenario, reflected on the DCF model, considers the impact of COVID-19 until 2021 and perpetual growth of 0,6%. Nevertheless, because of the uncertainty caused by the pandemic, it is important to consider a bearish and bullish scenario. Under a bullish perspective, the impact of COVID

Scenario Analysis		
Scenario	Share Price	Weight (in %)
Bearish	11,75	10%
Base	12,95	70%
Bullish	14,44	20%

Figure 44. Scenario Analysis (Price in A\$)
 Source: Analyst computations

would be limited to 2020. Therefore, the distancing measures that restricted InvoCare's ability to host large gatherings, affecting its operational and financial performance, would be minimized, leading to a faster recovery and higher growth. The bearish scenario is less likely to occur as Australia, New Zealand and Singapore were among the few countries to properly contain the pandemic. Nevertheless, despite their outperformance, a third wave or new virus stripe may force governments to imposed strict lockdowns affecting InvoCare's main business segment, funeral services, hindering its growth outlook. To understand the impact of each scenario, probabilities were attributed concerning their likelihood of occurring with the base, bullish, and bearish cases probabilities being 70%, 20%, and 10%, respectively, yielding a share price of A\$13,13.

Final Recommendation

InvoCare's strategic acquisitions of operations across the regional market, reorganization, and digitalization of its infrastructure will allow for a higher case volume to be addressed, projected to grow in the next 10 years at a CAGR of 3,33%. Therefore, strong sales are forecasted for InvoCare's and the funeral industry, as the number of deaths is also expected to increase exponentially as the population becomes older and the bigger demographic segment. Hence, our analysis yields a target price of A\$12,95 for December 2021, translating into a 16,71% shareholder return when compared to a share price of A\$11,45, and a dividend of A\$0,41 per share. The final recommendation is to "BUY".

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Appendix 1

Income Statement

(in A\$ thousands)	2015A	2016A	2017A	2018A	2019A	2020E	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Consolidated Income Statement																
Funeral Services																
Australia			294150	292979	298868	286701	287080	288473	312164	327444	344144	362289	380629	398766	416696	434215
New Zealand			44149	47234	53576	55853	58805	64884	69072	73673	78572	82373	86360	90545	95173	100002
Singapore			15651	16459	20823	18690	19190	20560	22080	23882	25823	27898	30100	32442	35177	38090
Memorial Parks																
Australia			106912	118454	117973	115810	123950	129751	135190	140872	146737	152378	157744	162783	167595	171966
New Zealand			2380	2528	2528	2479	2479	2479	3718	3718	3718	3718	3718	3718	3718	4957
Pet Cremations																
Australia			0	49	816	916	19123	20283	21487	22732	23906	25114	26354	27767	29081	30573
Revenue	436371	450659	463252	477703	494584	480449	510626	536429	563710	592321	622900	653870	684906	716020	747440	779905
Finished goods, consumables and funeral disbursements	(125 445)	(127 025)	(124 404)	(124 382)	(125 066)	(119 191)	(125 614)	(134 085)	(139 962)	(146 077)	(152 578)	(159 072)	(165 479)	(171 800)	(178 091)	(184 524)
Employee benefits expense	(142 331)	(150 758)	(153 784)	(161 079)	(166 204)	(177 768)	(178 719)	(178 316)	(187 384)	(196 895)	(207 060)	(217 354)	(227 671)	(238 014)	(248 458)	(259 250)
Advertising and public relations expenses	(16 715)	(16 530)	(15 604)	(17 055)	(16 810)	(21 140)	(22 468)	(23 603)	(24 803)	(26 062)	(27 408)	(28 770)	(30 136)	(31 505)	(32 887)	(34 316)
Occupancy and facilities expenses	(28 155)	(28 454)	(28 421)	(31 258)	(20 937)	(23 062)	(24 510)	(22 447)	(23 588)	(24 786)	(26 085)	(27 381)	(28 660)	(29 962)	(31 277)	(32 635)
Motor vehicle expenses	(8 824)	(7 881)	(8 295)	(8 620)	(8 480)	(10 089)	(10 723)	(9 419)	(9 898)	(10 401)	(10 938)	(11 482)	(12 027)	(12 573)	(13 125)	(13 695)
Technology expenses	0	0	0	(9 424)	(10 795)	(12 011)	(12 768)	(13 411)	(14 093)	(14 808)	(15 573)	(16 347)	(17 123)	(17 901)	(18 686)	(19 498)
Other expenses	(19 045)	(17 907)	(15 544)	(17 239)	(14 966)	(16 816)	(17 872)	(13 411)	(14 093)	(14 808)	(15 573)	(16 347)	(17 123)	(17 901)	(18 686)	(19 498)
Cost of Sales	(340 515)	(348 555)	(346 052)	(369 067)	(363 258)	(379 075)	(392 671)	(394 631)	(413 822)	(433 836)	(455 194)	(476 733)	(498 217)	(519 655)	(541 210)	(563 415)
EBITDA	95 856	102 104	117 200	108 636	131 326	101 375	117 954	141 738	149 888	158 485	167 707	177 137	186 688	196 365	206 230	216 490
Depreciation and Amortisation of non-current Assets	(20 180)	(21 334)	(21 260)	(26 039)	(36 986)	(39 382)	(40 627)	(41 814)	(43 001)	(44 246)	(45 491)	(46 736)	(47 981)	(49 226)	(50 471)	(51 716)
Impairments	2 765	(154)	(10 900)	0	(24 404)	0	0	0	0	0	0	0	0	0	0	0
Gain/(loss) on undelivered prepaid contracts	7 527	22 928	63 316	(4 992)	45 550	(46 446)	13 381	13 318	15 247	16 646	18 002	19 603	21 344	23 241	25 312	27 577
EBIT	85968	103544	148356	77605	115486	15547	90709	113242	122134	130885	140738	151473	162450	173694	185292	197397
Total Other Revenue	9 570	10 175	2 711	3 094	5 764	3 856	3 856	3 856	3 856	3 856	3 856	3 856	3 856	3 856	3 856	3 856
Interest Income	722	964	1 005	1 354	1 211	1 190	1 190	1 190	1 190	1 190	1 190	1 190	1 190	1 190	1 190	1 190
Acquisition related costs	(70)	(79)	(392)	(3 602)	(2 021)	(1 233)	(1 233)	(1 233)	(1 233)	(1 233)	(1 233)	(1 233)	(1 233)	(1 233)	(1 233)	(1 233)
Gain/(Loss) on disposal of an associate	0	0	(1 063)	0	52	0	0	0	0	0	0	0	0	0	0	0
Restructuring costs	0	0	(627)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net gain on disposal of non-current asset	312	(678)	3 350	329	2 352	1 133	1 133	1 133	1 133	1 133	1 133	1 133	1 133	1 133	1 133	1 133
Other comprehensive income for the year, net of tax	628	2 131	(1 488)	3 525	(1 859)	0	0	0	0	0	0	0	0	0	0	0
Interest expenses	(14 786)	(13 555)	(12 417)	(21 036)	(25 671)	(26 511)	(23 531)	(25 333)	(28 915)	(30 761)	(32 610)	(34 462)	(36 317)	(38 175)	(40 036)	(41 899)
EBT	82344	102504	139435	61629	95314	-6017	72125	92855	97265	115071	121584	130259	139693	149245	159011	169138
Income tax	(26 747)	(29 324)	(43 361)	(16 384)	(33 285)	1 652	(22 533)	(28 974)	(30 385)	(35 813)	(37 864)	(40 573)	(43 511)	(46 488)	(49 532)	(52 690)
Net Income/(loss)	55 597	73 180	96 074	44 885	62 029	(4 365)	49 592	63 881	66 880	79 258	83 720	89 686	96 181	102 757	109 479	116 449

Balance Sheet

(in A\$ thousands)	2015A	2016A	2017A	2018A	2019A	2020E	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Consolidated Balance Sheet																
Cash and cash equivalents	8679	1528	15531	14776	19580	180743	180743	180743	180743	11274	11846	12458	13077	13698	14320	14949
Trade Receivables (current & non-current)	55758	68277	73747	46029	72156	55233	67161	78261	82241	88415	90876	95395	99522	104462	109046	113762
Other Receivables (current & non-current)	8262	9255	8521	9706	10638	12994	13990	1538	12140	12773	14449	14136	14625	15119	16220	16946
Inventories	24451	25738	29133	46754	51566	51409	53253	56028	59084	62298	65739	69342	72771	76330	79941	83694
Prepaid contract funds under management (current & non-current)	422284	473095	545825	563587	618389	600198	612201	659381	696063	735576	780756	829967	883626	942203	1006219	1076259
Deferred Selling Cost (current & non-current)	10673	11126	11427	42150	39928	42490	43340	44857	46427	48052	49974	52073	54364	56865	59595	62574
Net Property, plant and equipment	322248	332008	354725	425578	448745	491760	510876	528911	547909	567913	578550	581714	585129	588770	592529	597739
Right of use asset	0	0	0	0	14 001	14 6124	14 8279	15 0465	15 1970	15 3490	15 5025	15 6575	15 8141	15 9722	16 1319	16 2932
Intangibles	152751	152495	147188	204799	188934	197058	205532	214370	223587	233202	234368	235540	236717	237901	239090	240286
Assets Held for sale	3499	2704	460	3936	5842	3288	3288	3288	3288	3288	3288	3288	3288	3288	3288	3288
Other Financial Assets	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Assets	1008609	1085191	1184561	1356319	1600763	1785302	1838657	1926846	1833988	1914857	1984588	2051009	2122487	2199384	2282199	2373093
Trade and other payables (current & non-current)	39487	44762	53936	61110	61704	50079	66328	66669	69901	73282	76889	80528	84157	87778	91419	95169
Current Tax Liabilities	10111	9935	12037	1486	813	1150	1150	1150	1150	1150	1150	1150	1150	1150	1150	1150
Deferred Tax Liabilities	36420	41062	55427	24314	34826	20854	26855	26855	26855	26855	26855	26855	26855	26855	26855	26855
Prepaid contract liabilities (current & non-current)	408448	438028	452084	510044	525383	536891	546608	565740	585541	606035	630276	656748	685644	717184	751609	789189
Deferred Revenue (current & non-current)	59117	62459	64834	138754	139300	143936	146814	151953	157271	162776	169287	176397	184158	192630	201876	211970
Provision for employee entitlements (current & non-current)	16624	17540	18751	19274	17511	17777	18893	19848	20857	21916	23047	24193	25342	26493	27655	28856
Lease Liabilities (current & non-current)	0	0	0	0	162901	165303	167740	170214	172816	175335	177871	180438	183136	185865	188624	191417
Derivative financial instruments (current & non-current)	4192	2740	1997	1795	4157	3390	3009	3239	3812	4564	5381	6264	7219	8264	9419	10684
Borrowings	230772	234495	243078	408245	357189	310737	341323	401713	279721	324718	352486	373271	390055	420756	447385	477393
Liabilities	805171	850981	902144	1165022	1303784	1255415	1318530	1407190	1316833	1392830	1458252	1519420	1585608	1657098	1734243	1818954
Non-controlling interests	161	1137	1194	1241	1256	1349	1323	1322	1316	1328	1339	1352	1366	1380	1394	1410
Parent entity interests	202277	233073	281233	190056	295723	538540	518804	518334	518939	520699	524987	530237	535513	540806	546562	552729
Equity	203438	234210	282417	191297	296979	529888	520127	519656	517155	522027	526336	531589	536879	542286	547956	554139
Total Equity & Liabilities	1008609	1085191	1184561	1356319	1600763	1785302	1838657	1926846	1833988	1914857	1984588	2051009	2122487	2199384	2282199	2373093

Appendix 2: Disclosures and Disclaimers

Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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Equity Research in the Funeral Industry: InvoCare adjustment to the new industry Dynamics

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A Project carried out on the Master in Finance Program, under the supervision of:

Nuno Quartin Bastos de Vasconcelos e Sá

January 4, 2021

Abstract

The work project “Equity Research in the Funeral Industry: InvoCare adjustment to the new industry dynamics” examines the new market drivers which forced InvoCare to fully renovate its facility network, introducing a new set of products and services as to address the Baby Boomers’, target demographic, preferences. Moreover, it aims to quantify the financial and operational impact from the new market dynamics. The reorganized business model is expected to foster InvoCare’s long term growth.

Keywords

InvoCare, Baby Boomers, Digitalization, Equity Research

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This report is part of the ... report (annexed) and should be read as an integral part of it.

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Executive Summary

The rising environmental and ecological concerns felt across the world's communities have, alongside a rapid change of consumer preferences and product expectations, been transforming the core of the funeral service industry. The ESG awareness led to the introduction of new memorialization formats, like the green burial, which gained traction among clients looking to leave a positive contribution and legacy. Additionally, the increased use and technology dependency made it indispensable and a differentiating factor when choosing the funeral provider. As a result, the digitalization process of funeral homes has intensified in the last years in order to incorporate the new market trends.

Moreover, the idea that a funeral must be a place to mourn the deceased has become outdated being substituted by a service that allows the celebration, festively, of the deceased's life. As individuals want to control the final stage of their lives and lift the financial burden from their relatives, they started to acquire pre-paid contracts and planning their funerals.

Since 2015, InvoCare's case volume has grown at a CAGR of 2,16% and has, simultaneously, provided more than 173.000 funerals across Australia, New Zealand, and Singapore. The ability to generate such significant growth, for an already mature industry, is being driven by an inorganic investment strategy, having done 25+ acquisitions since inception. Due to new demographic dynamics, Baby Boomers, and the 90's generation, InvoCare has reorganized its expansion strategy increasing its activity across Australia's regional areas.

InvoCare is expected to consolidate its position as the market leader across the three geographies as it, already, started to incorporate the new market trends within its business model. Group's revenues are projected to grow at a CAGR of 4,58%, while operating expenses will grow at a CAGR of 3,59%, translating into an EBITDA margin gain of 1,21%. For the before mention reasons, we forecast a share price of A\$12,95 for December 2021, yielding a total shareholder return of 16,71% from the current InvoCare's share price of A\$11,45 and an expected dividend of A\$0,41 per share.

Company Overview

Company History



Figure1. InvoCare's Premium Brand
Source: Company Website



Figure2. InvoCare's Affordable Brand
Source: Company Website



Figure3. InvoCare's Cremation National Brand
Source: Company Website

InvoCare Limited, the biggest funeral provider in Australia, is a recent player within the industry when compared to other small family-operated establishments, who have been servicing the Australian population for more than a century. In 2001, Service Corporation International, an American funeral provider, sold 80% of its Australian infrastructure to Macquarie Bank as part of its divestment strategy. After its IPO, in 2003, InvoCare Limited was established and an internationalization process occurred namely by expanding into New Zealand and Singapore. Simultaneously, in 2018, they entered a new adjacent business segment, pet cremations, in New South Wales.

The deployed expansion process and market penetration strategy are being supported through a continuous M&A activity and by leveraging its national and regional brands. As of today, it is seen as one of the few end-to-end operators in the Asia-Pacific market, being considered the geography market leader. Operates across the three funeral business segments, Pre-Paid Contracts, Funeral Homes having 290 locations, and Memorial Parks with 17 cemeteries & crematories which gives it a complete and extensive market coverage. As of 2019, Australia generated A\$417.66 M in revenue while, New Zealand's and Singapore's contribution was of A\$56.1M and A\$20.82 M, respectively.

Shareholder Structure

The shareholder structured has remain unchanged since the IPO, and, as of December 2019, there are 117.185 million ordinary shares outstanding being a stake equivalent to 53,9% held by a group of 40 shareholders, composed mainly of Investment banks and Nominee trusts. The latter represents almost 90% of the group and by itself services thousands of small investors. The trust allows them to participate in the stock market with more attractive conditions, lower transactional costs as the aggregate volume is higher.

In 2020, as a response to the Covid-19 pandemic, an Institutional Placement and Share Purchase Plan was performed raising A\$270.912 M with the issuance of 26.349 million ordinary shares. The capital was raised from existing shareholders and will be used to enable its growth strategy and reduce short term borrowings, minimizing the probability of financial distress that may arise due to the pandemic.

InvoCare's high payout ratio benchmark (75%) has been constantly surpassed during the last 5 years as it distributed 82% of its earnings. The payout is projected to increase in line with the growth of the industry and InvoCare's market dominance, both in the regional and metropolitan market being, on average, 92%, until 2030. Thus, making the stock attractive to investors looking for passive income. The consensus is that the core shareholder base will remain unchanged, being composed mainly of Australian nominees.

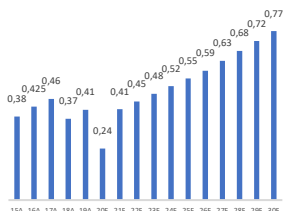


Figure4. Dividends evolution. From 2022 to 2026 +A\$0.035 and from 2027 to 2030 +A\$0.045.
Source: Company Data and Analyst estimates

Key & New Funeral Industry's Drivers

The funeral service industry has, for the last few years, been subject to new market, economic

and demographic dynamics which have forced providers to rethink and reorganize their business models. As a result, a restructuring path has become more evident as the different business segments started to move away from their conservative and traditional characterization toward a more contemporaneous one.

Inorganic Growth

Acquisitions have been a core pillar of InvoCare's growth strategy since it became public in the early 2000's. M&A operations are seen as the only viable strategy for funeral providers who look to expand and gain market share. The "ACCC found in their market assessment in 2011, while barriers to enter are low, the barrier to generating an adequate return are relatively high. New entrants in the funeral industry can take up to five years before a local reputation is built and the requisite number of funerals are performed to make a business profitable.". The dependency over this type of strategy is a byproduct of the demand side, which is driven by reputation, brand recognition, proximity, and presence within the community, a sentiment that takes time to build.

From 2003 until 2014, InvoCare's strong investment strategy led to the acquisition of 17 operations across the metropolitan areas of Perth, Sydney, South East Queensland, Adelaide, and Melbourne enabling the capitalization of A\$133 M in additional revenue. Moreover, the operations weren't restricted to Australia but were also performed across New Zealand and Singapore. InvoCare's success, throughout the 11-year period, reflected a 6%, 19%, and 10% market share gain, accordingly, across the three geographies.

Despite a well-developed expansion and internationalization process, InvoCare's two core markets, Australia, and New Zealand are still highly fragmented. As of 2018, roughly 56% and 74%, respectively of the industry is still in the hands of small family-owned businesses. Nevertheless, consolidation is expected soon, as internal conflicts such as relationship breakdowns, succession planning difficulties and health-related problems may force the sale to the big market players who look for greater geographic coverage and penetration across metropolitan and regional areas.

Regional Acquisitions

Sea and Tree Changers Movement – Internal Migration

As of today, the regional funeral industry provides almost 50.000 yearly funerals, roughly 33% of the deaths in Australia. In the next 25 years, as the regional population ages and grows, the number of services is expected to rise significantly. According to the paper *Managing Population and Change – Local Government Perspective* published by the Australian Local Government Association, "Between 2011 and 2016 over 650.000 capital city residents moved out, and of these over 400.000 (63%) chose to move to a regional area". Over the last decade, capital cities like Sydney have recorded a net internal outflow. The growing importance of this market geography, previously untouched, forced the reorganization of InvoCare's investment strategy, as its regional market share (5%), is well below the 34% it holds in the metropolitan areas.

The Sea and Tree Changer Movement led by the baby boomer generation (those born between 1946 and 1974) have been reshaping the Australian demographical and geographical paradigm.

Market Share	2005	2015	2018
AUS	19%	34%	39,5%
Sydney		43%	
Melbourne		27%	
SE Qld		33%	
Perth		45%	
Adelaide		26%	
NZ	0%	19%	19,1%
SG	0%	10%	10%

Figure 5. Market Share gain across the three geographies – 2005, 2015 & 2018
Source: InvoCare Corporate Presentation, Propel Funeral Partners' Prospectus

OUTER SUBURBAN CHANGES				
POPULATION GROWTH SCENARIO	INCOME	HOUSE PRICES	EMPLOYMENT	CONGESTION
~40 YEARS CURRENT PATH	↑	↑	↑	↑
~40 YEARS REGIONAL FOCUS	↑	↑	↑	↑

Figure 6. Differentiating factor between metropolitan and regional areas.
Source: McCrindle Report on Australian population

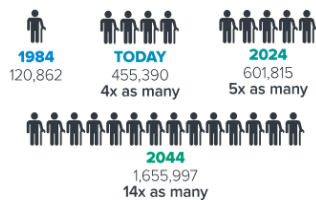


Figure 7. Evolution of the over 85 years Australian population.
Source: McCrindle Report on Australian population



Figure 8. Evolution of the over 65 years Australian population.
Source: McCrindle Report on Australian population

Australia		Funeral Cases	Cremation Cases	Revenue	Complete
Hastings Funerals, Port Macquarie NSW	Regional	400	-	A\$2.7m	Sep 2018
Harrison Funerals, Ballarat VIC	Regional	150	-	A\$1.0m	Sep 2018
Grafton & District Funerals, Grafton NSW	Regional	300	-	A\$2.0m	Aug 2018
Archer & Sons, Bunbury WA	Regional	350	-	A\$2.4m	Aug 2018
English Rose Funerals, Adelaide SA	Metro	140	-	A\$0.7m	Jul 2018
Leser & Son, Albany / Whidanga VIC/NSW	Regional	400	200	A\$3.5m	Jul 2018
Southern Highlands Funerals, NSW	Regional	100	-	A\$0.7m	Jun 2018
J&J Funerals Services, Launceston, TAS	Regional	200	-	A\$1.0m	Mar 2018
TOTAL		2,080	200	A\$14.8m	

Figure 9. Acquisitions Performed in Australia by InvoCare
Source: InvoCare Corporate Presentation

New Zealand		Funeral Cases	Cremation Cases	Revenue	Complete
William Morrison Funerals, Auckland	Metro	800	720	NZ\$5.2m	Aug 2019
Hope & Sons Funerals Directors, Dunedin	Regional	600	470	NZ\$5.0m	Jun 2019
Whitstone Funerals, Oamaru	Regional	150	90	NZ\$1.0m	Jun 2019
TOTAL		1,730	1,280	NZ\$12.0m	

Figure 10. Acquisitions Performed in New Zealand by InvoCare.
Source: InvoCare Corporate presentation



Figure 11. Old Chapel prior NBO Program.
Source: InvoCare Corporate presentation

In the early 2010's, the older segment entered the retirement age and, looking for a slower life-style pace, started to move towards the coastal and mountain areas in the outskirts of metropolitan cities, where they are expected to remain until the end of their lives. Furthermore, the exodus is not limited to the baby boomers' but has been exponentiated by those born in the '90s. The accessible housing market, employment opportunities, and children friendly environment have been luring them as it offers the social and financial security, they want to start a family.

Despite the age gap between the above mention groups, both represent InvoCare's future target demographics. Nevertheless, the need to reorganize and address the baby boomer generation comes from its growing market relevance. A study commissioned by the Australian Funeral Directors Association projects them to grow at a CAGR of 2,46% in the next 24 years with yearly deaths being more than 250.000 by 2044, a 66% increase compared to today.

Due to a growing elder demographic concentration within regional areas and under the assumption the funeral provider chosen is the one closest to the deceased residency, InvoCare has shifted its M&A focus toward this region. The strategic change is supported by Competition and Markets Authority's research which concluded "... the inherent emotional distress people experience when arranging a funeral, they understandably tend not to spend time comparing providers. They typically choose to use a funeral director that has been recommended or is familiar to them. For crematoria, people generally select one that is closest to them geographically.". As a result, in 2018, 11 acquisitions were done, from those 9 were in regional areas adding 1940 funeral cases in Australia and 780 funeral cases in New Zealand. The additional case volume implied a revenue increase of A\$13.4 M and NZ\$6.6 M, respectively.

In the next years, the foreseen M&A activity might be exponentiated by Covid-19 as the worldwide pandemic defined by severe lockdown restrictions, negatively impacted businesses dependent on hosting events such as the funeral industry. Therefore, small operations, the most affected by this challenging ecosystem, may be forced to sell, as they may not be able to adjust to the new market characteristics. As a result, InvoCare has been presented with the opportunity to acquire relevantly and established brand names priced below-market prices and operating in growing and attractive communities.

Digitalization

In 2017, an infrastructure renovation process, Network & Brand Optimization Program, was launched to renovate and refurbish InvoCare's locations in order to create an environment that could host more and larger events, celebrate the deceases live in a bright and warm venue, and be adjustable to its customers' needs and expectations.

The A\$200 M in net Capex to be invested came from the need to offset the market share loss felt during the last years as the traditional funeral segment, a crucial part of the operations, started to lose traction given the baby boomers' perspectives over funerals started drifting from the traditional approach. A 2014 study conducted on the Australian population, to the over 50s, concluded that more than half wanted the service to be held in a relaxed, reflective, and fun environment, moving away from the church and priest-presided ceremony. According to them, the funeral should be a celebratory moment used to recognize their life instead of mourning their

death.

As a result, the program's purpose was to reposition and initiate a system-wide rebranding, addressing key market changes from the demand side who looks for modern and bright facilities equipped with the newest technologies allowing them to tailor-made the funerals according to their needs and preferences. Social media platforms have been used to generate outreach to friends and family that want to pay their last respects. Likewise, imaging and broadcasting software have been and will be installed across InvoCare's network allowing them to stream the ceremony to those unable to attend. The transformation, still ongoing, led to the creation and introduction of a new sub-segment of additional services, unavailable in the old-fashion and underperforming facilities.

The pandemic made digitalization a key differentiating factor when choosing the provider, as attendance limitation prevented normal events to be hosted. InvoCare's early retrofit gave them the first mover advantage since those without the appropriate technology have been affected due to a responsive lag. Moreover, smaller funeral homes, with few locations, may be unable to digitalize as the required investment and shutdown time may cause significant operational disruption.

Additionally, the NBO program is expected to capture case volume that otherwise would be satisfied by the traditional segment as baby boomers, responsible for the organization of their parents' funeral, are expected to choose a provider that, simultaneously, respects their parents' (demographic target by the traditional segment) wishes and is aligned with their preferences.

Currently, 52,3% of the 221 proposed NBO locations have been renovated and have shown promising financial and operational results as operational leverage EBITDA is up by 6,9% when compared to 2018 and 8,5% when compared with 2019. Additionally, before Covid-19, renovated locations had been outperforming the market as the case volume grew by more than 4,9%, compared with the industry's 1,9%. Despite the positive signs, the impact of the program is still uncertain and hard to quantify as InvoCare's unrenovated locations have shown double-digit case volume decreases and market share gain has not met expectations.

Due to the restrictions imposed by the Covid-19, on March 2020 an Institutional Placement and Share Purchase Plan was completed raising A\$270.912 M. From an efficiency standpoint, it makes sense that a significant part of the capital raised is channeled to the NBO program to speed-up and deliver renovated sites as the existing ones can easily satisfy the demand and imposed health restrictions.

According to the 2020 half-year report, InvoCare plans to overhaul an additional 50 locations this year while the remaining will be spread over a period of 3 years to limit the impact on the company's earnings.

Growing non-religious population

Prior to the launch of the NBO Program, the Australian funeral homes were designed to host Christian oriented ceremonies, traditional segment, as its population religious beliefs identified with it. Nevertheless, in the last few years, the above mention segment started to underperform as the daily role and impact of religion become marginal. In 1971, the Christian community living



Figure 12. New Chapel under NBO Program.
Source: InvoCare Corporate presentation

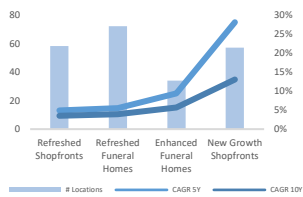


Figure 13. Number of renovated locations under the NBO Program and Expected CAGR (%) regarding case volume
Source: InvoCare Corporate presentation

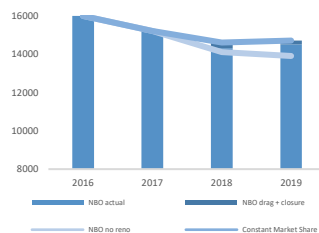


Figure 14. Performance comparison between renovated locations with and without the NBO Program – Case volume
Source: Annual Report 2019

in Australia represented roughly 90% of the population however, since 2000, a steep downward trend has become evident as the population cultural and religious composition changed, with Christians shrinking by half.

A less devoted population is a byproduct of many factors however, family pressures have been identified as the main driver since in 47% of the cases those who follow Christianity do it because of family beliefs and traditions. Furthermore, when performed an in-depth analysis of those supporting the traditional segment only 15% attends church at least once a month and less of half of them (7%) is an active practitioner.

To address this fundamental market change InvoCare has, through the NBO program, been substituting the obsolete traditional segment with catered services, that fulfill the deceased unique cultural, spiritual, and religious identity. This new dynamic is expected to generate a complete overhaul of the funeral home system in Australia and New Zealand since most, apart from InvoCare, cannot provide customers with attractive alternatives.

Is still important to mention a new market sub-segment driven by specific cultural needs, Hinduism, and Buddhism, that is still partially untouched. To address it, InvoCare has taken the precaution to create within its cemetery network designated areas that can satisfy its customer's cultural identity while creating a relationship with the culturally rich communities living in Australia and New Zealand.

Unavailability of real estate for burial plots

Burial, the preferred departure option for Catholics has been losing momentum. Nonetheless, a less religious Australian population does not fully explain the growing cremation rates seen in the last years. This phenomenon has been a consequence of unsustainable burial price increases due to the lack of public burial plots. The higher prices come from strict zoning restrictions that limit, simultaneously, the construction of new cemeteries and expansion of existent ones, as the available urban land will be used in residential developments to accommodate the growing population.

The problem is transversal across Australia and New Zealand where, according, to reports done by the federal governments, the available public cemetery land will be fully consumed within the next 20-30 years. In extreme cases, as it occurs in Christchurch (New Zealand), life expectancy is less than 10 years. Due to the negative outlook, governments have entrusted and started to channel part of their case volume to private providers to extend their cemeteries' lives. The private sector's continuous replanning and restructuring of cemeteries' layouts have increased the life of their assets by an additional 20 years, being able to satisfy the existing demand for the next 50.

Moreover, even under the assumption zoning restrictions are relaxed, which is unlikely to occur, the needed investment to increase plot supply will only be accessible to businesses with strong financial capabilities. As the core operations of a public institution are not the management of cemeteries and crematoria, the needed public investment is expected to be low, being the responsibility left to corporations, like InvoCare.

Business Segments & Financial Outlook

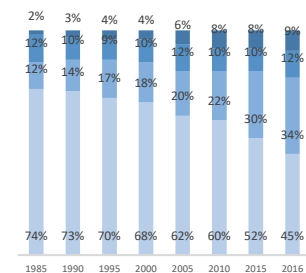


Figure 15. Evolution of the religious composition in Australia
Source: McCrindle and Cultural Atlas

InvoCare's business segments have been adjusting to the new funeral industry's dynamics, as the current products, services, and network facilities no longer satisfy and are aligned with the future users' desires. The funeral homes' growth will depend on **regional acquisitions, digitalization, a less religious population, and the baby boomer generation**. The memorial parks and pre-paid contracts performance will be conditioned by the **rising prices, lack of public & useable land, ESG alternatives, and real disposable income**.

Funeral Services

KPI's	'17-'19	'20-'30
Whole geographies		
Revenue contribution (%)	75,50%	72,56%
Revenue CAGR (%)	1,16%	4,71%
Case Volume CAGR (%)	1,15%	2,99%
Australia		
Revenue contribution (%)	81,74%	77,0%
Revenue CAGR (%)	0,53%	4,24%
Case Volume CAGR (%)	-0,10%	2,38%
New Zealand		
Revenue contribution (%)	13,37%	17,1%
Revenue CAGR (%)	6,66%	6,00%
Case Volume CAGR (%)	6,00%	4,61%
Singapore		
Revenue contribution (%)	4,88%	5,88%
Revenue CAGR (%)	9,96%	7,38%
Case Volume CAGR (%)	9,28%	6,36%

Figure 16. Segment Key Performance Indicators
Source: Company Data and Analyst estimates

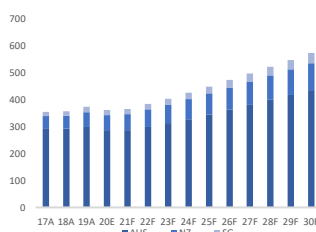


Figure 17. Segment Revenue Evolution (in millions of A\$)
Source: Company Data and Analyst estimates

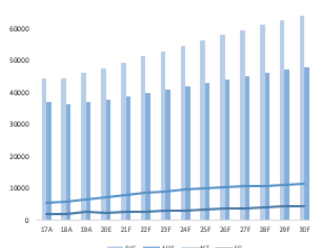


Figure 18. Segments Case Volume Evolution
Source: Company Data and Analyst estimates

The funeral service segment is responsible for the event organization of the final goodbye of the deceased. InvoCare operates two national brands, White Lady Funerals, and Simplicity Funerals, as well as multiple regional brands across Australia, New Zealand, and Singapore. White Lady Funerals provides high-end services that are not at everyone's reach, while Simplicity Funerals provides a budgeted service affordable to all. Its brands' adaptability to the financial, cultural, and religious disparities enables a complete demographic coverage unobtainable by small funeral providers.

As of 2019, Australia was responsible for 80% of the segment's revenue, A\$298.8 M. In the last 3 years, the Australian metropolitan market has provided 110.000 services however, its case volume has been deteriorated with the CAGR being negative (-0,1%). The underperformance of its core market comes from the regional exodus led by the older generations and the subsequent rejuvenation made it unattractive. As a result, from 2017 to 2019, Australia's revenue grew 0,5% YoY while New Zealand's and Singapore's CAGR was 6,7% and 10% accordingly, through acquisition and facilities expansion.

To address the low growth of its primary geography, InvoCare has restructured its acquisition strategy to follow sea and tree changer movement. In the next decade, regional M&A activity, initiated in 2018, is expected to intensify to increase market presence and create community awareness. Proximity to potential clients' residency will be a crucial case volume and revenue driver as families tend to choose the funeral provider closest to them, as previously explain.

As a result, the strategical repositioning will enable a stronger presence across the regional market and the Network & Brand Optimization Program will provide an overhauled product portfolio which is expected to turn around the before mention situation. In the next 10 years, Australia's case volume CAGR is projected to be 2,38%, providing more than 470.000 funerals, 76,05% of InvoCare's services. The positive outlook will consequently impact the revenue CAGR which is projected to be 4,24%, being the growth more evident during the last five years, 2025-2030, with a CAGR of 4,76%. By 2030, Australia's revenue is projected to be A\$434 M.

New Zealand and Singapore revenue contribution will increase slightly but the rising focus within Australia will negatively impact their revenue growth, the 10-year CAGR will be 6% and 7.31%, respectively.

Memorial Parks

The memorial parks segment is focused on providing a last resting place to the deceased via burial, cremation, and storage of the remains. The burial is normally the most expensive option as it requires the acquisition of a plot of land which, as any piece of real estate, respects the

KIP's	'17-'19	'20-'30
Whole geographies		
Revenue contribution (%)	24,44%	23,85%
Revenue CAGR (%)	3,31%	4,11%
Case Volume CAGR (%)	1,15%	2,99%
Australia		
Revenue contribution (%)	97,46%	97,7%
Revenue CAGR (%)	3,15%	4,03%
Case Volume CAGR (%)	1,18%	2,99%
Burial CAGR (%)	0,59%	-1,50%
Cremation CAGR (%)	1,42%	4,17%
New Zealand		
Revenue contribution (%)	2,54%	2,34%
Revenue CAGR (%)	2,03%	5,32%
Case Volume CAGR (%)	-0,10%	2,99%
Burial CAGR (%)	-0,10%	-1,50%
Cremation CAGR (%)	-0,10%	4,17%

Figure 19. Segment Key Performance Indicators
Source: Company Data and Analyst estimates

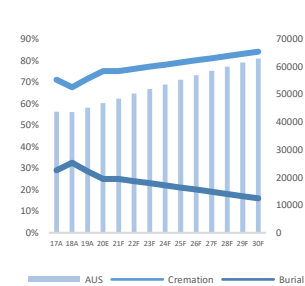


Figure 20. Australian case volume and cremation & burial rate
Source: Company Data and Analyst estimates

supply and demand rule. In the last years, plot availability has decreased significantly. Additionally, the interment period, the timeframe the deceased is buried lasts for at least 50 years hence, as existing plots can’t be reused, demand will most likely surpass supply. Since 2017, cremation has become a popular alternative being chosen, on average, in 70,1% of the cases.

Throughout the forecasted period, the cremation rate is expected to spike as the scarcity of burial plots and everlasting price increases will make the latter format unattractive and out-of-reach. By 2030, burial prices are expected to be 7,55x the cremation price, almost 2x higher than in 2019. The widening spread comes from a despair price growth, as burial prices are projected to grow 4,18% YoY, 205bps more than cremation prices, as the latter is not restricted by a physical asset, land.

In Australia, and due to Covid-19, the 2020 cremation rate is projected to be 75%, 350 bps higher than in 2019. The trend is expected to be kept in 2021 as the impact of the pandemic is still uncertain and consumers are looking for cheaper options. Until 2030, the cremation rate is projected to keep the 2017-2019 upward trend with yearly increments, 100bps, to reflect the impact of burial prices, lack of available land, and a less religious population, stabilizing at 84%

Historically, Australia has been responsible for 97,5% of the generated revenue and this is not expected to change nevertheless, the revenue composition will undergo significant modifications. From 2020 until 2030, this geography case volume is projected to grow 2,99% YoY. The foreseen higher growth, +1,81%, is explained by the unparallel cremation case volume CAGR of 4,17%, being this driver up 272bps from 2017-2019. Despite, the positive cremation volume outlook, burials are expected to hinder InvoCare in the long run, as this memorial format is projected to decline at a CAGR of 1,5%. Despite the expected decrease, this sub-segment will still represent at the end of the forecasted period 59% of the segment’s revenue, A\$171 M. Cremations will see its revenue contribution increase 600bps to 40,1%, almost doubling it, A\$71 M.

Additionally, the rising ESG concerns and willingness to create a more sustainable planet have led to the introduction of eco-friendly alternatives, green burials, biodegradable urns, and ashes transformations. This new market segment will enable a faster land reuse benefiting InvoCare’s profitability.

Pre-Paid Contracts

This segment is still recent as the underlying product has only been created a decade ago. Despite being a novelty, it has become an integral part of InvoCare’s operations since without it, its market share could be as much as 22% lower.

In the last 5 years, InvoCare´s sold, on average, A\$32 M worth of contracts, yielded an average return of 9,76% on the AUM. Since the capital is invested on well diversify portfolios, the forecasted return is expected to track the historical performance of ASX-200, the Australian market index, yielding a yearly return of 5,32% until 2030. Slightly conservative forecast when compared with the realized returns.

The bespoke pre-paid contract’s pricing mechanics enables the buyer to lock the price of the funeral today, avoiding unsustainable price increase which will result in the degradation of their consumption power. In the last 10 years, even though the Australian real disposable income grew

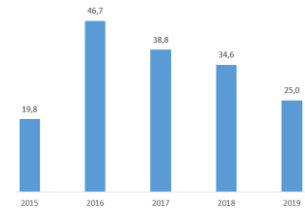


Figure 21. Volume of Pre-Paid contracts sold in the last five years (A\$M).
Source: InvoCare Annual Report 2019

3,35% YoY, when benchmarked against the CAGR of burial prices (4,18%) a loss of consumption power becomes evident for this product.

Another factor that provides further ease to potential customers and encourages them to choose prepaid contracts is the capital protection covenant in place. This unique feature of prepaid contracts means the upfront payment is going to be held by a third party, who manages and invest the funds on behalf of the funeral home. The last only receives the cash once the death occurs. Moreover, in case of bankruptcy, inability of the funeral house to provide the contracted service, or in case the death occurs outside the state the upfront is transferred to the decease's estate.

The same benefits are not achieved with funeral insurance as a variable premium is paid through the life of the contract and the payment tends to increase over time and with the age of the policyholder. Hence, in some cases, the sum of all payments can exceed the cost of an at-need funeral. Moreover, in case of payment default the insurance company is not responsible for the policy payment, increasing the financial distress felt by the holder and his family.

Pre-Paid Contract's simplicity, customer adaptability and pricing mechanism, unmatched by the other available products (funeral and bond insurance), will be some of the responsible factors for the forecast segment growth.

The number of prepaid contracts sold is projected to decrease in 2020 and 2021 given the financial impact that COVID-19 had on the family's expenditure possibilities, especially when considering that a funeral will range between A\$8000 and A\$15000. However, because of the product characteristics and expected fast economic recovery of the geographies InvoCare operates in, from 2022 until 2024 sales are projected to return to 2019's value growing 3,5% YoY. From 2025 onward, contracts sold are projected to grow an additional 0,2% YoY as baby boomers are expected to start their funeral arrangements.

Pet Cremation

In late 2018, InvoCare entered a new adjacent market focused on the cremation of small port animals like cats and dogs. By expanding the cremation operations, InvoCare entered a market valued at A\$12.2 B. Since 2013, the pet industry experienced a 43% increase through a sustained YoY growth at a rate of 4,45%. The knowledge and experience gathered from two decades within the funeral service industry will be crucial throughout the next five years as they build their brand, patch, and establish a relationship with the surrounding communities of NSW.

The pet industry evolution has followed the rising of animal rights movements which have led to a change in perspective over what pets are. They are no longer seen as just an animal but have become a crucial family member. Pet expenditure has risen significantly as more services and higher quality products are made available. In 2017, the yearly cost of owning a dog and cat was A\$1975 and A\$1029, respectively.

Families not only give their pets the best care and comfort during their lives but also try to do so on their death. Therefore, the pet cremation segment has, in line with the industry, shown high growth rates as families do not mind spending on average A\$300, around 2,23% of the overall cost of owning a pet, on a cremation to guarantee a propel farewell to a beloved family member.

In mid-2020, InvoCare finalized the acquisition of the two largest Australian pet cremation

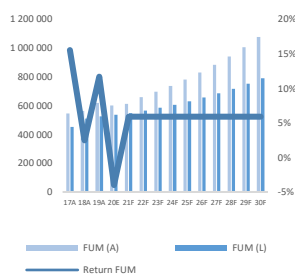


Figure 22. Pre-Paid Contracts AUM & LUM. Return & Cost of AUM & LUM (in thousands of A\$)
Source: Company Data and Analyst estimates

KPI's	'18-'19	'20-'30
Australia		
Revenue contribution (%)	0,06%	3,58%
Revenue CAGR (%)	308,08%	4,80%
Case Volume CAGR (%)	308,08%	42,01%

Figure 23. Segment Key Performance Indicators
Source: Company Data and Analyst's estimates

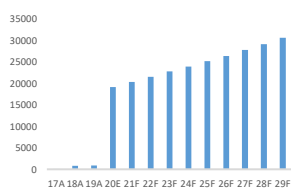


Figure 24. Segment Revenue Evolution (thousands of A\$)
Source: Company Data and Analyst estimates

companies giving it countrywide access. With the operation, InvoCare's case volume is projected to increase from 3.000 to more than 65.900 in 2021. From 2021 onwards, as business synergies are realized and market share consolidate, the case volume is expected to increase 4,8% YoY providing 105.000 cremations by 2030. This segment's yearly turnover will be more than A\$ 30M, being 6x the revenue generated by New Zealand's memorial parks